M. R. Benedict.

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JOINT COMMISSION OF AGRICULTURAL INQUIRY.

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AGRICULTURAL INQUIRY.

THURSDAY, AUGUST 4, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met, pursuant to recess, in room 70, Capitol Building, Hon. Sydney Anderson (chairman) presiding.

The CHAIRMAN. We will now hear Mr. Powell. I should like to say that Mr. Powell did not come here with the expectation of appearing before the committee. He appears now at my suggestion, and without having ample opportunity to get the material which I think he would like to present at this time. I make this statement in justice to him.

STATEMENT OF MR. G. HAROLD POWELL, GENERAL MANAGER OF THE CALIFORNIA FRUIT GROWERS' EXCHANGE, LOS ANGELES, CALIF.

Mr. POWELL. Mr. Chairman, I take it that I was asked to come before the committee because of the fact that I represent a cooperative organization of producers, the California Fruit Growers' Exchange, that has had 25 years of experience, which has gone through all the stages of childbirth, learning to creep, and then to walk; also because of the fact that the exchange handles a business which runs into very large figures, probably $100,000,000 in all branches of its business, and that it may have had some experience that may be useful to the committee.

The California citrus industry has grown to very large proportions. It now represents an investment of about $250,000,000. Years ago it tried to sell its products just as most agricultural products are sold, either to speculative buyers at the point of production, or it would consign them east on commission, or in other ways common to the sale of agricultural produce generally.

That system broke down. The fruit was a semiluxury. The markets were a long distance away. Facilities for transportation were not very well developed, and for several years the industry did not receive the cost of handling the business. It was faced either with giving up the investment or improving its marketing system. Twenty-five years ago the growers in California began to get together and form local units through which they would assemble the products of quite a number of growers in order that they might standardize the product and ship it in carlot quantities. They formed quite a large number of these local units and attempted

through them to sell carlot quantities in the same way that the individual had done, but that system broke down also.

Following that the local organizations federated into a single agency called the California Fruit Growers' Exchange, which has now developed until its membership represents about 11,500 growers, who are divided into about 200 local associations, each association of growers being largely composed of neighbors who build packing houses at a cost of from $40,000 to $500,000 each, there assemble their fruit, grade it, standardize it, pack it, and put it on the cars for shipment.

Representative TEN EYCK. Right there, what is the requirement of membership?

Mr. POWELL. Any grower who desires to join can become a member of the association. Each member usually contributes to the capital of the association in amount proportionate to his acreage or shipments. These growers are held to the association by a contract, usually a long-term contract, which has in it, however, a cancellation clause, through which any member can withdraw at the end of a season if he is dissatisfied. It may be a 10-year contract or it may be a 25-year contract, but he has a cancellation privilege at the end of the year.

Representative MILLS. How about the grading of the fruit and picking?

Mr. POWELL. The grower forms his local associations. The fruit of the growers is picked by the local association, not by the individual grower, delivered to the packing house, and there packed by them under rules and regulations laid down by the central organization. The function of a local association is to assemble the fruit and prepare it for shipment.

Representative MILLS. And grade it?

Mr. POWELL. And grade it and prepare it for shipment.

Representative FUNK. What proportion of products of this kind produced in California does your association handle?

Mr. POWELL. Seventy-five per cent. Now, these 200 associations for business convenience have formed what they call district exchanges; that is, if there are half a dozen associations in a community they form a nonprofit association, which acts as an agent for them in handling their distributing problems at cost. The associations operate at cost for the members. Some of them are capital stock corporations and some noncapital corporations, but all of them operate at cost, without profit to the capital invested.

Representative TEN EYCK. What interest have they in your large working capital?

Mr. POWELL. We have no capital at all. I will come to that.

Representative TEN EYCK. Very well.

Mr. POWELL. Then, for still further business convenience the district exchanges have formed a central organization, the California Fruit Growers' Exchange, which has no capital, is a noncapital stock corporation, formed under the laws of California, and acts as the marketing agent for these different associations and district exchanges at cost.

Representative MILLS. It does all the selling?

Mr. POWELL. It does all the selling; that is the local units sell their product through the central organization. It is not turned over to

the central organization. The central organization furnishes facilities in all the markets of the United States, in charge of salaried agents, and the local units determine the conditions under which their product shall be sold through the central agency. About 33 per cent of all the fruit is sold at public auction. It is sold at public auction in practically all the large eastern markets. The rest is sold at private sale.

Now, in addition to the purpose I have described, there are other functions which these agencies perform. They include the function of developing markets through their service men; through their agents to cooperate with the trade for the purpose of developing better merchandising and quicker turnovers at lower margins per turnover; national advertising in order to extend the consumption of citrus fruits; furnish the different units a daily news service which will give the members all the information that is necessary for the handling of their business; the collecting of the funds and returning the funds to the local units.

Representative MILLS. Well, now, let me ask you this: You maintain a selling agent in a city like New York?

Mr. POWELL. Yes. That is an auction market.

Representative MILLS. And you sell 70 per cent of your product by private sale?

Mr. POWELL. Yes. About 33 per cent of it is sold at public auction.

Representative MILLS. On what basis is your price fixed?

Mr. POWELL. The law of supply and demand wholly on a perishable product. There is no way in which you can fix any price on a product that is to be sold when it reaches the market except what the buyer is willing to pay for it, and what the seller is willing to sell it for.

Representative MILLS. That is what I say—your agent does not attempt to sell your product before it arrives at New York City?

Mr. POWELL. No; all the fruit at New York, Boston, and the larger markets is sold at public auction, not at private sale at all.

Representative MILLS. So that your agent in New York does not attempt to sell at private sale?

Mr. POWELL. No; in all auction markets everything is sold exclusively at auction. In a private-sale market the fruit is sold as promptly as possible after arrival at a price negotiated between the local unit through the central office and the agent with the buyer, and they negotiate back and forth until they arrive at a price that is mutually satisfactory.

Representative MILLS. We had another gentleman here from some California association who said that they attempted to sell their product f. o. b.

Mr. POWELL. We do not follow that system at all.

Representative MILLS. You do not follow that system at all?

Mr. POWELL. We follow the delivered system altogether, except in a few pocket markets in the Northwest, where we do sell on an f. o. b. basis. Probably 95 per cent of the commodity is sold on a delivered basis.

Representative MILLS. Now, you do not attempt to sell directly to wholesalers or retailers, do you?

Mr. POWELL. We sell entirely to wholesalers. At public auction the auction company sells to anyone who comes into the auction

room and buys, under the rules and regulations of the auction. Usually 20 or 30 box lots, whatever the local conditions may be.

Representative MILLS. That may be to a commission merchant?

Mr. POWELL. It may be a commission merchant, it may be a jobber, it may be a retail merchant, it may be a peddler, it may be anybody. In the private-sale market we sell exclusively to the wholesale trade.

Representative MILLS. Let me ask one more question with reference to the marketing. You are familiar with the New York situation, Mr. Powell, are you?

Mr. POWELL. Very familiar with the New York situation; yes, sir.

Representative MILLS. Your fruit is sold for the most part on the Erie Pier, is it not?

Mr. POWELL. All of it.

Representative MILLS. Do you not have considerable difficulty there by reason of congestion at times?

Mr. POWELL. Yes; all the New York facilities for handling perishable products are very much congested, and there is difficulty in getting material properly arranged on the piers and quickly off the piers because of the congestion.

Representative MILLS. And because of the fact that frequently you can not get the cars over from Jersey City?

Mr. POWELL. Not often. Only in times of congestion do we have that difficulty. But generally in normal times there is a very regular movement, almost as regular as a passenger schedule, from California.

Representative MILLS. There are no refrigerator facilities there, are there?

Mr. POWELL. No; there are no refrigerator facilities. The fruit is sold immediately, within 24 hours after unloading.

Representative MILLS. Do you not lose a good deal by reason of delay sometimes, and through exposure?

Mr. POWELL. Practically none. It is unloaded, Mr. Congressman, during the night. Sales begin at 8.30 or 9 o'clock; the sales are completed between 2 and 3 o'clock in the afternoon and delivered in the afternoon.

Representative MILLS. You are not interested, of course—well, you are; but it does not concern your association primarily—as to the system of distribution after you have sold the fruit?

Mr. POWELL. We are very much interested in that, Mr. Congressman; and I would like to discuss that a little bit later, if I may.

Representative MILLS. All right.

Mr. POWELL. I would like to show what we have done in the matter of distribution and what the costs of distribution are. I thought you might be interested, possibly, in the margins of the wholesaler and retailer in handling the California citrus products.

Representative TEN EYCK. We are interested in that. But if we could properly grade and standardize the farm products in a general way, what is your opinion as regards selling at the point of shipment or on consignment at the point of delivery? Which do you think would be the better method?

Mr. POWELL. If I may, I would like to come to that point just two or three moments later, after I have covered one or two costs here, Mr. Congressman, and then I will discuss the breakdown in agricultural distribution this year and the relation of delivered methods of

sale to that breakdown in agricultural distribution, with your permission.

Representative TEN EYCK. That is perfectly satisfactory to me.

Mr. POWELL. If I may, I would just like to follow this out logically for a moment.

With the sale of, say, 40,000 carloads of fruit to the wholesale trade annually—and that is about the volume of our business—the cost of selling, including the cost of the California Fruit Growers' Exchange, the central organization, and its agencies and the district exchange, is less than 1½ per cent on the delivered value of the product. Most farm crops are sold delivered at 10 to 15 per cent, say from 7 to 15 per cent, and even up to 20 per cent on the delivered value of the product. Through the cooperation of these 11,000 growers we have been able to effect economies in distribution, so that our total cost of delivering to the wholesale trade, not including national advertising, is less than 1½ per cent on the delivered value. The actual figure is 1.35. We spend from $600,000 to $700,000 a year in national advertising. and, adding that to distribution cost, the total is approximately 2 per cent on the delivered value, which indicates what you can accomplish through cooperation in large volume.

I might bring out one other point to the commission. We have heard a good deal about the crooks in the trade, about the middleman, about the fact that he does not deal fairly with his constituents, with the men that he does business with. We are dealing with about 3,000 wholesale dealers: all classes of trade; Americans, Greeks, Jews, Italians, all classes, all nationalities. In the last 15 or 18 years we have returned to California over $350,000,000 through this organization, and dealing with 3,000 wholesale dealers the actual losses from uncollected bills, losses in transit, losses through our agents, have been less than $10,000. I do not believe, Mr. Chairman, you can handle many Government funds of $350,000,000 and have a loss of less than $10,000. I was in the Government service 10 or 15 years and I think it would be suprising to find many funds handled in Washington with less than those losses. I think that speaks fairly well for the integrity of the average man in business, if you are dealing with him on a fair basis. He pays his bills if you are dealing with him on a fair basis. I have forgotten what percentage that is, though I figured it out once. It is something like one three-thousandths of 1 per cent of the money returned to California.

So much for those costs. I think you may be interested now in the cost of distributing this product to the wholesale trade, the average wholesale cost to the retail trade, and the average retail cost to the consumer.

The CHAIRMAN. Very well.

Mr. POWELL. In other words, take a dollar's worth of oranges and divide it up into its constituent parts, and I will give you now the records of eight years of very careful investigation showing the distribution of the consumer's dollar backwards. We arrive at it in this way: We began eight years ago to take from the principal cities of the United States and Canada twice monthly the wholesale delivered price of oranges to the jobber, of definite grades and sizes. Then we take the same grades and sizes and trace those through and

get the jobber's price to the retailer, and then we trace those through in different classes of stores, like the chain store and the fancy grocery store and the corner grocery store, and get the average retail price on the same identical grades and sizes, so that for eight years every month we would have from the same cities on the same subject comparable figures, and it can be charted just like an engineer's chart. I happen to have in my grip a few of these charts which summarize these figures and which I thought you might possibly like to look over. This chart shows a division of the consumer's dollar for oranges for a period of years and is based upon probably more accurate data than has been brought together in any other agricultural industry in this country.

To summarize that, Mr. Chairman, it shows that for a 5-year period the average gross margin of the retailer—that is, the margin on his selling cost—has been 26.4 per cent; about 33 per cent on the purchase price. Dry groceries, I think, are just a little less than 20 per cent.

When we began this investigation the retail margin was about 33 per cent. The average wholesale jobber's margin, so-called middleman's margin, during the five-year period has been 8.4 per cent of the consumer's dollar.

Representative TEN EYCK. Is that on the purchase price?

Mr. POWELL. On the sale price to the consumer.

Representative TEN EYCK. What is it on the purchase price?

Mr. POWELL. About one-half more on the jobber's purchase price. The part which goes into transportation, you can see from this chart, back in 1918 was 16.4 per cent. A year later it was 15.8 per cent, and a year later it was 18.1 per cent, and now it has jumped up to 24.1 per cent with our higher freight rates. You can not pass a freight rate or any additional cost on a perishable product along to the consumer. Every cent added to your overhead, either in cost of production or freight on a perishable commodity is stood by the producer, because it must be sold for what it is worth at the time it reaches the market, and our shipments through the canal and our shipments by rail, each carrying an entirely different freight rate, sell in New York on the same day at the same identical price for comparable lots.

The average cost of the exchange on the consumer's dollar basis for this period has been 1 per cent of the consumer's dollar.

The average amount returned to California during this period has been 49 per cent.

If you will take this chart you will see that practically every year the retail cost, the jobber's cost, and the transportation cost, until these freight rates went up, was 50 per cent of the consumer's dollar.

The average retail margin on oranges is 25 to 26 per cent. The jobber's margin 8 to 10 per cent. Transportation is from 15 to 25 per cent, depending on just what freight rates are in effect, and the amount that returns to California may be about 50 per cent, varying up or down, depending upon the retail price.

Representative TEN EYCK. Now, take this freight rate. It would be the extreme freight rate due to the fact that your products are carried the longest distance to market and you are using the higher cost rate.

Mr. POWELL. Highest classification.

Representative TEN EYCK. Yours is the highest classification?

Mr. POWELL. Yes; our rate on lemons at the present time is $1.66½ a hundred pounds, and on oranges $1.92, exclusive of the war tax.

Representative FUNK. In other words, as I understand you, the amount received by the producer is reduced in proportion as the freight rate is increased?

Mr. POWELL. Yes; or any other fixed cost that takes place after you harvest your product, because you can not add to a perishable commodity any of those costs. It has got to be sold for what it is worth on the day it reaches the market, and you can not add any of those costs on the selling price. A manufacturer can simply reduce his production, but in the case of this commodity that can not be done. The fruit must reach its full volume, and it must be shipped and sold for what it is worth.

Representative FUNK. In which class would you include grain?

Mr. POWELL. I am not familiar enough with grain marketing to draw a comparison. Of course, it is not perishable like citrus fruits, and it is not as stable as steel or an entirely nonperishable commodity.

Representative TEN EYCK. Undoubtedly these figures that you have given to us set forth what the farmer gets out of his product with the most efficient organization that exists in the country to-day for sales and distribution; is that not so?

Mr. POWELL. And on a product grown or produced away from the average market.

Representative TEN EYCK. Yes.

Mr. POWELL. I might say that through the cooperation of the industry with the trade we have been able to reduce these margins and we have been able to reduce them by showing the merchant that he can make more money by so doing. In other words, a good many systems of merchandising are based upon slow turnovers at high margins per turnover. We have conducted an educational campaign for several years with the wholesale trade organizations and the retail trade organizations through which we have attempted to show them that by better displays, attracting the consumer more, and putting reasonable margins on their products they will turn them over quicker; that there will be less waste in the product; that they can afford to sell them for less; they can use their capital more times per year; and the jobber or retailer will get a higher net profit on the whole year's business. In other words, to reduce the cost of a perishable commodity to the consumer, our experience leads us to believe that you first must have large volume, so that you can ship in carload quantities; you must have a standardization of the product; you must have an equitable distribution; you must couple that up with the cooperation of the trade; you must have national advertising, regular supplies, and when you do that then your wholesale or retail dealer can adopt a merchandising system that is efficient, and he can not adopt a merchandising system that is efficient with irregular supplies, with fruit that rots, or where there is a great loss in it.

Now, our experience has led us to believe that the farmers ought to cooperate with the men with whom they do business, and only by cooperating with them and helping them to understand your problems, and by your understanding their problems, can you get the maximum of efficiency.

Representative TEN EYCK. The farmers should standardize the grades of their products before shipment?

Mr. POWELL. That, Mr. Congressman, is the first requisite of any system of modern merchandising. No merchant can deal in nonstandardized commodities and charge reasonable margins on them. That is the first thing that must be done. You must have efficient merchandising.

Representative MILLS. Have you made any study of the high cost of retail distribution?

Mr. POWELL. Yes, sir; I have studied that subject a great deal.

Representative MILLS. What is the answer?

Mr. POWELL. The high cost?

Representative MILLS. Yes.

Mr. POWELL. It depends very largely on the whims and the demands of the man who creates a high cost of retail distribution.

Representative MILLS. That is the consumer?

Mr. POWELL. The consumer. The cost of distribution in any class of store is usually, in our commodity at least, in response to the demands of the man who deals with that store. If it is a chain store, and the man is willing to go to that store and get his stuff and take it home, of course the service rendered is light. If he deals with a Fifth Avenue store in New York, it is a different proposition. There is a type of buyer who likes to be seen coming out of a store on Fifth Avenue, drive his machine up to that store, and have it known that he is able to deal with that store. If he does that, then he is paying for the service. And we have found that the question of retail cost is largely a matter of the whim of the customer, and the only way it can be reduced is by adopting these fundamentals which I have spoken of, which permits the merchants in any class of these stores to eliminate waste, to make quick turnovers, and to sell at reasonable margins per turnover, and therefore have a large number of turnovers per year. I do not think that there is any formula, any patent-medicine formula by which you can reduce these costs.

Representative MILLS. There is no short way out?

Mr. POWELL. I don't know of any short way out.

Representative MILLS. In so far as retail buying is concerned?

Mr. POWELL. I have never discovered any short methods that can be applied to agriculture or agricultural products. All of it is a matter of evolution; and if it goes too fast, there is a devolution that follows it always, and you have to start over again. All of our improvements in purchasing or distribution or advertising or anything else have had to creep step by step, and we have had to get our experience as we went along. If we go too fast, it costs us money, and we have to start over again.

Now to come to your question, Mr. Congressman. You asked me about the relative merits, as I understand it, of the delivered method of sale versus the f. o. b. method of sale. As I see it, the agricultural machinery of this country very largely collapsed in 1920 for a number of reasons. One was because there was not an export outlet for surplus. We dumped back on the farmers' hands an immense amount of material which could not be merchandised. It created a surplus here which depressed the market.

Second, the financial conditions of the country were such that the men who have usually bought farm crops at the point of production,

either the local buyers or the representatives of the distant buyers, could not be financed because the distribution and the future sale is a speculative operation. Under financial conditions existing this year no bank could afford to finance an operator who went into Oregon from New York or Philadelphia, or who went into California or any other distant market and bought a year's supply, because it was a speculative venture under present financial conditions.

Therefore the two chief reasons for the collapse in the marketing of the commodities in which I am interested and with which I am familiar, were: First, lack of credit facilities for purchase, and second, a lack of outlet for the surplus.

Now the organization which I represent learned this lesson 25 years ago. It learned the lesson that in bad years, whenever merchandising conditions are bad, that no merchant will attempt to finance a crop for distribution, because he can not afford to do so, nor can the bank afford to finance him, and therefore we learned 25 years ago that the f. o. b. method of sale must be eliminated, on a perishable product at least. So we established these agencies all over the United States for the purpose of distributing this product to our own agents; in other words, the producer assumes the speculative risk of distribution himself. He financed the first distribution. The man in the market who buys then only has to finance his daily purchasing, and it is no strain on anybody.

This year in California, at least, there are only two commodities that I know of that have moved out under normal conditions, in normal quantities, and sold on a basis comparable with prewar prices. One is walnuts and the other is citrus fruits. And the reason for it is the fact that the industry itself has distributed these commodities to the primary market, and there has sold them to 3,000 or more dealers who have only had to buy their daily supplies. Now that was no financial strain on anybody. The man can do that. We have done that in the citrus business for 25 years. Walnuts have always sold on an f. o. b. basis. This year the California Walnut Growers' Association, foreseeing this financial difficulty, changed their system of merchandising. They reduced their prices 30 per cent at the beginning of the year, because they knew prices had to come down. Next they established warehouse centers all over the United States, shipped their product to those warehouses and sold, where normally they had sold 15 to 50 carloads of walnuts, in 10-bag lots. The result is they cleaned up their crop, with the trade fighting for the supplies at the end of the year.

Now, there is the answer as I see it, Mr. Congressman, to your question. The value of the delivered method of sale versus the f. o. b. sale is a credit question very largely. I do not believe that any producers' organization can establish a national advertising system and can cooperate with the wholesale and retail trade, unless it applies delivered methods, because it can not harmonize and equalize distribution, which is essential to a national advertising of a product or a cooperative method of trade.

Representative MILLS. Do you attempt to maintain prices at all by retaining any of your fruit from the market?

Mr. POWELL. We can not. On a perishable commodity we have got to ship it. On a perishable commodity, if you try to in any way influence your price situation by holding you are likely to lose more

by holding than you would make by any rise in price, and we have found through years of experience that the only way to market a perishable commodity is to ship it when it is ready to ship, to take what it is worth at the time you sell it. You may get a low price one day and a high price another day, but they equalize and wash themselves out. It always sells under those conditions for what it is worth. Speculation is eliminated, and you get an average price based upon the value of the product throughout the year. We could not control the price if we tried to. We could not control the price on a perishable commodity, because you must sell when it is ready to be sold. You can sometimes on a storage commodity influence price, but if you fix prices and influence them, then whether you gain by it or lose by it depends entirely on whether you are a successful or unsuccessful guesser. The principles which govern the price in the long run are the principles of supply and demand. If you guess right you have a feeling that you are a pretty wise merchant. If you guess wrong you forget about it and don't tell anybody about it.

So much for the delivered versus the f. o. b. method of sale. Are there any questions on that? I am covering this, Mr. Chairman, rapidly, because I know your time is limited, and I am not quite sure whether these are things in which you are interested.

The CHAIRMAN. We are.

Mr. POWELL. But personally I think that this is very significant. The breakdown this year was due to a lack of credit facilities. And yet, with the reduced buying power, there was sold a volume of fruit above the normal, a semiluxury like oranges, under a delivered method of sale, where nobody had to take a speculative risk. The largest volume of fruit in the history of this business was sold this year.

The CHAIRMAN. When you speak of a lack of credit, do you mean by that that the machinery could not arrange credit, or that the economic conditions were such that it was not safe to do it?

Mr. POWELL. It was unsafe to extend credit under the present economic conditions. I might say that in our own industry we have no lack of credit. We have been cooperating so long in southern California that I think there is no branch of the economic structure of the country that cooperates more with our industries than the banks themselves. The banks have realized that the cooperative movement is essential to the stability of these agricultural industries, and I think I am safe in saying that no cooperative organization in California has ever been denied any credit that its securities entitle it to. I am sure that is true of the citrus industry.

Representative MILLS. And that was true in 1920?

Mr. POWELL. That is true all the time in California.

Representative MILLS. And true to-day?

Mr. POWELL. It is true to-day, and it has been true all the time that I have known the industry in southern California.

Now, so much for the distributing.

Representative SUMNERS. I want to ask you one question with reference to the distribution. Do you have important competitive areas outside of your section coming to market at the time when you are coming to market?

Mr. POWELL. Yes; our orange business is a year-around business. The navel business begins in November and extends to June. Our

Valencia business begins in May and extends to November. So it is a complete year around business. Now during the period of the Florida crop we have a very active competition in all eastern parts of the United States with the Florida product. Then we have a very severe competition throughout the summer with other perishable fruits; that is, competition between oranges and cantaloupes and peaches and other perishable products is as severe as the competition between California and Florida oranges in the wintertime.

Representative SUMNERS. Now, how do you adjust the volume of your shipment with reference to the total shipments coming in from other sections?

Mr. POWELL. We do not attempt to adjust it. What we do is this: At the beginning of the year we make an estimate of the probable volume of fruit to be shipped out during the year. Now we know that each district of California ships its fruit within certain periods, and that to bring back the most for that product it must be shipped during the period when it is in the best condition. We know from years of experience that about a certain percentage ought to come forward every week, first from the State, and second from each community. And so the shipments automatically adjust themselves to the experience of the past. Each association has its complete record for 10, 15, or more years period. They know in January that they have got to ship a certain proportion of their estimated crop in February, because if they do not, and try to hold it, they have got a surplus.

Representative SUMNERS. In the absence of some understanding between you and other competing territories, how can you avoid loss and congestion in the market at one place and inadequate supply at the other?

Mr. POWELL. Well, we do not attempt to have any understandings with any other part of the country on distribution. We know that in order to handle our own business it must come forward at the time it is fit to come forward, irrespective of competition anywhere else.

Representative SUMNERS. What I am trying to find out is this: How do you arrange to route your shipments in to the points that are least supplied by other shipments?

Mr. POWELL. Well, we know every day through our agent what the supply is in every market in the United States. We know what the cantaloupe supply is, not in car lots, but the general market conditions. Every day we receive from our agents telegrams that come in to our central office. At the height of the season we receive three to four hundred a day. Now that information goes out every night in bulletin form to all the associations, so that every association has every telegram that comes in, so they know what the conditions are, and they use that information as the basis for their judgment. And each association knows, from a period of years, what conditions to expect. It has its customers in various markets. It knows what proportion it shipped each year to Detroit or Cincinnati or Buffalo or Rochester or Washington.

Representative SUMNERS. Yes; but what I am trying to find out is, do you have any knowledge with reference to the movement into the various markets from the sections where your organization does not operate?

Mr. POWELL. No; we do not. Do you mean from Florida, for instance?

Representative SUMNERS. Well, from anywhere. Yes; Florida, for instance.

Mr. POWELL. No; we do not.

Representative SUMNERS. Then in the absence of that knowledge, does it result, in practical operation, that you and the other fellow arrive in a given market in large quantities at the same time?

Mr. POWELL. We might at some times, but it could not last very long, because if the Florida fruit came into Philadelphia in excessive quantities and reduced the price, our people would not come to Philadelphia. They would ship to some other part of the country.

Representative SUMNERS. Might it not happen also that in such a case the Florida man would do the same thing?

Mr. POWELL. It might, but we would not lose, because these prices on perishables adjust themselves so quickly. They would not both do it, probably, at the same time. They might come head-on again, but automatically in the handling of perishable products those things adjust themselves without very much difficulty.

The CHAIRMAN. If I may refer back again now to the crop situation out there. A suggestion has been made that the banking facilities of California have been adapted with regularity to the cooperative situation. Is that true?

Mr. POWELL. Well, I suppose, Mr. Chairman, that through an intimate knowledge on the part of the bankers of the cooperative system, that they have had more confidence in the cooperative system, that they probably have extended their facilities with better understanding of the safety of their loans than in most sections of the country. I would not say that there are any peculiarities in the machinery through which they have adapted their credit to cooperative organizations. I think it has been more through a greater understanding and better knowledge of the risks involved, which has brought them into closer contact and into a more sympathetic contact with the cooperative system, than is possible in the sections of the country where cooperative organizations are just starting, and where their financial ability to meet their credit has to be determined in the future.

The CHAIRMAN. Now you refer to some work that your organization has done with the retail grocers. Did you get any figures as the result of that work on the average grocer's overhead, on the cost of handling general stock?

Mr. POWELL. No; except that, of course, at Harvard there are published a number of bulletins, as you probably are aware of, giving the overhead of handling different kinds of commodities through retail stores, which is an average of about 17 or 18 per cent. It is a little larger on perishables, because there is a little more loss than there is on dry groceries or dry commodities.

The CHAIRMAN. Did you find that there was very much overstocking, carrying larger stocks, having longer turnovers than desirable?

Mr. POWELL. There was several years ago. I do not believe there is very much of that at the present time, because a man who overstocks on a perishable loses through having his stock on hand. When we first began working with the lemon trade throughout the country

they used to refer frequently to the "secret box" of lemons which we find frequently under the back stairs, never displayed, and the merchant would bring out a half a dozen lemons or one little dried up hard thing when somebody would ask for it. He would have a stock of lemons on hand hidden away, and as a result the customers would not ask for lemons, and he always had an oversupply. We have been trying to get him to put them in the window, let people see them, because through suggestion they buy them, particularly in hot weather.

The CHAIRMAN. I had reference rather to overstocking general stock rather than perishables. I thought perhaps in your investigation you had run across something on that.

Mr. POWELL. No; Mr. Chairman; we have not.

The CHAIRMAN. Now, you referred to the fact that you got an average retail price in different communities from chain stores and corner stores and fancy grocery stores, etc. Now, how wide a variation would you find charged at retail for the same quality of article?

Mr. POWELL. Oh, I would estimate 40 or 50 per cent or more, depending entirely on the class of trade. If you have got a very high class, fancy specialty grocery store, where you are dealing with very wealthy people, and where price does not cut much of a consideration, you may get, for instance, for the same grade of oranges a dollar a dozen, while the same identical oranges sell at public auction from the same car of the same grade, going into another section, may be sold for 50 cents a dozen, and the difference between the 50 cents and the $1 representing largely the service to the customer or the preference of the customer for dealing in certain sections or on certain streets. For instance, during the war the highest grades of oranges sold in New York went on the East Side, to the laboring people. The laboring people would not buy the medium grades or the low grades, but they constantly bought the very highest grade at public auction. They paid the same price for those oranges at the public auction that the Fifth Avenue grocery store paid for them. When you went to the little store on the East Side and bought those at retail the actual price that you paid, the price to the consumer, may have been 20, 30, or 40 cents a dozen less than they were sold at on Fifth Avenue, depending on the auction price.

The CHAIRMAN. Are these auction sales conducted by auction companies or by you, or how?

Mr. POWELL. By auction companies. We have no interest in the auction companies. The auction companies may be made up of the trade in the community, or they may be purely service corporations not connected with the trade or with the shipper.

Representative SUMNERS. Do you sell through an auction company or does the person to whom you sell in carload lots sell to the auction company?

Mr. POWELL. In all the auction markets in the east—in New York, Philadelphia, Buffalo, Boston, St. Louis, Cleveland, Cincinnati—everything that we sell goes direct through public auction. We sell direct at public auction.

Representative SUMNERS. You do not auction in carload lots, or break your cars?

Mr. POWELL. They are usually unloaded on the platform, so that the buyers can inspect by sample, and then they are offered in lots of

a minimum of usually 20 boxes, or 10 boxes, or 30 boxes. That is purely a local rule of the auction company. Now, he can buy 10 boxes, or 20 boxes, or 30 boxes, depending on the rule of the auction company. Our agent represents us in dealing with the auction company. The auction company is responsible for the collections from the trade and turning the money over to us.

Senator LENROOT. Then, in no case do you fix prices?

Mr. POWELL. You can not fix prices on perishable commodities.

Senator LENROOT. I say you do not, as a matter of fact, in any case?

Mr. POWELL. We do not, as a matter of fact, in any case. The central organization does not control the destinations, does not control the shipments, does not control the proportion; those are controlled by the local units. Each local organization reserves to itself the right to determine when it shall pick its fruit, the quantity it shall pack, where it shall ship its fruit, the price at which it will sell it, except at public auction.

Representative SUMNERS. How do you avoid, under that arrangement, having the local units conflicting with each other in a given market?

Mr. POWELL. Through the daily bulletin that goes out every night to them.

Representative SUMNERS. In case half a dozen local units want to ship at the same time to the best market, who controls that?

Mr. POWELL. Well, their experience has taught them that they would go in head on if they did that. A large part of this crop is sold to regular customers in the private-sale markets. A man has his regular customers, and he goes to that market and supplies his trade. If they are shipping too strong into a market, the man who has not got his trade does not get any customers, and therefore he has to divert. Automatically that adjusts itself. Nobody controls it, but the experience of the shippers over a period of years controls it, because they know that if a man who has not got a definite trade in a market attempts to compete in that market with the man who has established customers, if he oversupplies that market he can not sell his fruit, and therefore he has to divert.

Representative SUMNERS. So that the shipping organization which has a list of definite customers in a given market ships to that market?

Mr. POWELL. He will protect his customer and keep his products in the market.

Mr. Chairman, that is all I think of just now that I want to say to the committee. I could speak here a long time on different branches of this subject. I am not sure what the committee is interested in.

The CHAIRMAN. Mr. Ten Eyck would like to ask you a question, Mr. Powell.

Representative TEN EYCK. From your experience in following your products to the consumer, I would like your opinion as to whether or not you feel that we have too few or too many retail men in the various communities.

Mr. POWELL. In a perishable commodity, like oranges and lemons, the more retail distributing agents we have the better we like it.

Representative TEN EYCK. From your standpoint?

Mr. POWELL. From our standpoint, because people buy a great many commodities through suggestion. They do not shop for per-

ishable commodities. They do not call up on the telephone and ask this store what the price of oranges or what the price of lemons is, and then another store and shop. They buy from their grocery store, and they buy from a near-by grocery store. They seldom go downtown to buy perishable commodities. Therefore in the distribution of these perishable commodities the more distributing agents you have got the larger your distribution, because more people come in contact, in intimate contact with the commodity, and it is only by intimate contact with the commodity that they get suggestion that impels them to buy.

Representative TEN EYCK. Well, how does the consumer come out on that as regards price?

Mr. POWELL. Probably better than he would otherwise. He doesn't have to travel and shop for this stuff. He gets it near by, conveniently.

Representative TEN EYCK. You feel that the consumer, then, benefits by a greater amount of retail men?

Mr. POWELL. I think he does. On this commodity I do.

Representative TEN EYCK. Is it not a fact that while you may sell more, due to a larger number of retail men, that you increase the overhead on other commodities and other things, and on your own as well, so that the consumer has to pay a larger price for all his food products in proportion to the division of the profits, on account of the increase in the number of retail men?

Mr. POWELL. You possibly do; but you probably reduce his cost of getting his commodity. I don't know which would overbalance the other.

Representative TEN EYCK. In other words, you feel that at the point of production you should cooperate and do it on a large scale, but at the point of distribution you should extend it?

Mr. POWELL. Exactly; so that you can get your commodity on a large scale close to the people who buy it, just as in the cooperative movement we form our local units close to the man who produces, and therefore on the same principle I would develop a retail business close to the man who buys. And the closer you can establish it to the man who buys the less expense he has in purchasing his commodity.

Representative MILLS. You think that is so, even if you find two or three retail stores in one block?

Mr. POWELL. Our retail stores run probably one to 300 people or 400 people.

Representative MILLS. I should think they run less than that—less than 400 people in New York City.

Mr. POWELL. Possibly, in a great city like that.

Representative MILLS. Of course, it is a great convenience to the consumer, but he pays for it.

Mr. POWELL. He is willing to pay; and he is the king, and he is going to have it the way he wants it and have it when he wants it. I do not know of any other way you can lay down the supplies to him. You can not tell him to go and buy the stuff, but you must bring it to him.

Representative MILLS. He is not very happy about it.

Mr. POWELL. No; but he does not want to go down town to buy his stuff. He wants it, even if it is higher priced, he wants it anyway.

Representative TEN EYCK. Carrying your idea and plan into effect, you would break up the department stores and distribute them throughout the entire city of New York, so as to bring the distribution close to the people.

Mr. POWELL. I do not think in that case you can do it, but you can do it on food products, and you must bring the food products close to the consumer.

Representative TEN EYCK. I have found that the consumer here in the East usually buys over the telephone.

Mr. POWELL. I would not want to try to apply that on those goods; I do not know anything about dry goods. But I would apply it to the articles that are liable to be lost.

Representative SUMNERS. Do you observe that the fluctuations in the retail market correspond to the fluctuations in the price which the retailer pays for these perishable commodities?

Mr. POWELL. Yes; only they fluctuate more slowly than the wholesale prices. But take the three sets of figures—I am not quite sure whether you were in, Congressman, when I outlined the matter that for three years we were making a study of distribution. We take the prices from three places, the price to the jobbers, and to the retailer, and to the consumer, on the same lot of fruit. Now, you have the three sets of figures, and on our chart I draw a line of the wholesale price for eight years, and that wholesale price will follow identically our price to the jobber, and you take your retail price and that will follow your wholesale price also. It will be a little slow in adapting itself, but it will follow. If I had our charts here I could illustrate that to you. I think it was a most amazing thing to me, the way these prices followed each other with the accuracy of an engineer's chart, based upon the studies of these three sets of figures which we have made. If you had all this stuff centralized down town, it would not do it, but the fact that you have it distributed in a large number of stores it could not be otherwise. The retailer will relate his price to the wholesale price, because if he does not somebody else in the next block will vary his price and follow the wholesale price and he will get the customer. If you take the car lot, the wholesale, and the retail prices over a period of years and chart them, the three lines will follow each other with almost mathematical accuracy.

Representative TEN EYCK. Have you a chart of the overhead of those various stores?

Mr. POWELL. You mean the grocery stores?

Representative TEN EYCK. The stores you sell to.

Mr. POWELL. The chain store, or the corner grocery?

Representative TEN EYCK. Yes; both.

Mr. POWELL. No; we take the average——

Representative TEN EYCK. I know, but what I am getting at is, do you have any information as regards the amount of the overhead costs of these distributing stores?

Mr. POWELL. No; not from our investigation.

Representative TEN EYCK. You see, that to a certain extent would cover the cost to the consumer, and while the rise and fall of the prices would follow your wholesale prices evenly, if the overhead charge varied at different times, why their percentage of profit would

vary, or they would go out of business. They have to, in a business way, follow their overhead charges, because their profits would vary in accordance with their overhead charges; is that not so?

Mr. POWELL. I think so.

Representative FUNK. Mr. Chairman, I think that exhibit submitted by Mr. Powell should go into the record, if it is not already provided for.

The CHAIRMAN. We have that exhibit in another form to put into the record. But, without objection, this exhibit now submitted by Mr. Powell may go into the record. I presume in printing we shall have to omit these dollars at the top of the page. We have no opportunity of printing the chart.

(The exhibit referred to is printed in full, as follows:)

Division of the consumer dollar paid for oranges.

[Compiled by the California Fruit Growers' Exchange.]

	Per box.	Per cent.
Dec. 1, 1913–Nov. 15, 1918 (5-year period, averaged):		
Fruit on tree	$2.265	39.8
Harvesting	.112	2.0
Packing	.341	6.0
Selling	.061	1.0
F. o. b. California	2.779	48.8
Transportation	.935	16.4
F. o. b. market	3.714	65.2
Jobber's margin	.48	8.4
Jobber's price	4.194	73.6
Retailer's margin	1.50	26.4
Consumer paid	5.69	100.0
Dec. 1, 1918–Nov. 15, 1919:		
Fruit on tree	3.277	42.4
Harvesting	.138	1.8
Packing	.406	5.3
Selling	.066	.9
F. o. b. California	3.887	50.4
Transportation	1.223	15.8
F. o. b. market	5.11	66.1
Jobber's margin	.59	7.6
Jobber's price	5.70	73.8
Retailer's margin	2.02	26.2
Consumer paid	7.72	100.0

	Per box.	Per cent.
Dec. 1, 1919–Nov. 15, 1920:		
Fruit on tree	$3.540	39.1
Harvesting	.184	2.0
Packing	.594	6.6
Selling	.092	1.0
F. o. b. California	4.410	48.7
Transportation	1.640	18.1
F. o. b. market	6.05	66.8
Jobber's margin	.75	8.3
Jobber's price	6.80	75.1
Retailer's margin	2.25	24.9
Consumer paid	9.05	100.0
Dec. 1, 1920–May 15, 1921:		
Fruit on tree	1.762	25.9
Harvesting	.186	2.7
Packing	.600	8.8
Selling	.092	1.4
F. o. b. California	2.640	38.8
Transportation	1.64	24.1
F. o. b. market	4.28	62.9
Jobber's margin	.54	8.0
Jobber's price	4.82	70.9
Retailer's margin	1.98	29.1
Consumer paid	6.80	100.0

A careful statistical survey conducted by the California Fruit Growers' Exchange over a period of eight years in minimizing the guesswork in the distribution and marketing of California citrus fruits.

Since December 1, 1913, thorough surveys of the factors entering into the selling of oranges and lemons have been compiled at intervals through information supplied by the eastern agents, dealer service men, and special investigators with the cooperation of the jobbing and retail trade.

One of the most interesting and important phases of this work has been the investigation and study of the cost of oranges and lemons to the consumer and the distribution of the dollar the consumer pays for oranges between the producer and the various factors in distribution.

The method of the research which started in December, 1913, has been virtually the same for each succeeding period. It is as follows: Exchange sales agents check up the retail prices on particular brands and sizes of oranges and

lemons; follow these brands back to the jobber and ascertain his price and show the price paid by the jobbers in carload lots.

An average is taken of the retail, jobbing, and car-lot prices shown on these reports, and by percentages the dollar paid to the retailer is distributed over the factors that enter into the harvesting, packing, and distribution, the remainder showing what proportion of the dollar comes back to the producer for his labors.

The figures compiled in the above charts cover Valencias and navels as well as other varieties of oranges.

In the five-year period from December 1, 1913, to November 15, 1918, the dollar was divided up approximately into the following elements when traced back to the producer.

The retailer's gross margin averaged 26.4 per cent of the consumer's dollar during the five years.

The jobber's gross margin averaged 8.4 per cent of the consumer's dollar.

The railroad's gross revenue over this period averaged 16.4 per cent of the consumer's dollar.

The cost of distribution through the exchange, including advertising, averaged 1 per cent of the consumer's dollar.

The crops returned to California during this averaged five-year period approximately 49 per cent of the consumer's dollar, of which the fruit on the tree received nearly 40 per cent.

TRANSPORTATION CHARGES ADVANCE.

An interesting commentary brought out in the compilation of the figures included in the charts pictured above is the steady increase in transportation charges which have gradually been making larger and larger inroads on the consumer's dollar spent for oranges.

During the 5-year period from December 1, 1913, to November 15, 1918, the average transportation charges amounted to 16.4 per cent of the consumer's dollar. In the season of 1919 the charges for transportation dropped slightly to 15.8 per cent of the consumer's dollar. In 1920 the percentage of the consumer's dollar paid to railroads for the transportation of oranges jumped to 18.1 per cent. The greatest inroads made by transportation charges into the consumer's dollar are within the past 6-month period from December 1, 1920, to May 15, 1921, when a jump from 18.1 per cent to 24.1 per cent was registered by transportation charges against the dollar which the consumer pays for oranges.

INCREASED FIXED CHARGES LOWERS GROWER'S RETURNS.

Perhaps the most conclusive proof that an increase in transportation and the other so-called "fixed charges" is inevitably accompanied by decreased returns to the producer is shown in these charts.

During the five years covered when transportation charges absorbed 16.4 per cent of the consumer's dollar the fruit on the tree returned on an average of 39.8 per cent of the consumer's dollar to the grower.

In the season of 1919, when transportation charges were only 15.8 per cent of the consumer's dollar, an increase of 42.4 per cent of the consumer's dollar returned to the producer was registered.

The following year, 1920, with transportation charges taking an average of 18.1 per cent of the consumer's dollar the return to the producer, or the fruit on the tree, dropped to 39.1 per cent of the consumer's dollar paid for oranges.

Within the last 6-month period from December 1, 1920, to May 15, 1921, when transportation charges absorbed 24.1 per cent of the consumer's dollar, the fruit on the tree returned to the producer only 25.9 per cent of the total the consumer expended for oranges.

OPERATING COSTS SOMEWHAT FIXED.

An important item which should be noticed in these charts is the fact that with a lower price per box a larger percentage of the consumer's dollar goes for "fixed charges," such as harvesting, packing, and transportation.

The operating costs of the retailer, the jobber, the railroads, and the producer are largely fixed. They are independent of the value of the fruit. They represent the cost of producing the fruit; of freight and refrigeration service; of

delivery by the retailer and jobber; and the jobber's and retailer's cost of selling. Prices are determined by the relation of supply to demand rather than by costs of production and distribution, and changes in these costs are directly reflected in the producer's net return.

Mr. POWELL. Mr. Chairman, I regret very much that I did not know I was to appear before this commission, or I would have brought very much more detailed information to the commission, which I have tried now to supply from memory.

The CHAIRMAN. We would be very glad to have you submit any detailed figures, Mr. Powell, that you think would be valuable to us in arriving at our conclusions.

Mr. POWELL. I would be very glad to submit data to you, Mr. Chairman, if you will indicate to me what type of data you would be interested in.

The CHAIRMAN. I will be very glad to do that. We are very much obliged to you for your statement, Mr. Powell.

(And thereupon the commission proceeded to the consideration of other business.)

AGRICULTURAL INQUIRY.

WEDNESDAY, AUGUST 10, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met, pursuant to adjournment on yesterday, at 10 o'clock a. m., in room 70, Capitol Building, Representative Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission this morning will hear Mr. Franklin N. Brewer, general manager of Wanamaker's store in Philadelphia.

Before you begin, Mr. Brewer, I would like to outline the general character of the investigation that the commission is making, particularly the various phases of it to which I think you can address yourself with profit and advantage to the committee. The terms of the resolution under which the commission is operating are very broad, indeed. The particular part of which I think you can give us some help on is the cause of the difference between the prices of agricultural products paid to the producer and the ultimate cost to the consumer; that is, the differences between the prices which the farmer receives and the prices which the consumer pays; in other words, the spread between the wholesale and retail prices.

Another proposition we are considering is, the relation of commodities other than agricultural products to such products, and also the character and efficiency and adequacy of the usual marketing system of the country.

We will be very glad to have you discuss any phase of retail merchandising which you think will help the commission in arriving at some conclusions with respect to the problems that it is considering.

STATEMENT OF MR. FRANKLIN N. BREWER, GENERAL MANAGER OF JOHN WANAMAKER'S STORE, PHILADELPHIA, PA.

Mr. BREWER. Mr. Chairman, in considering the scope and character of the services rendered, I think, from the point of view of our business, it is fair to assume, in general, that what the public wants and the order in which it wants it are, first, the exact article or the exact type of goods desired or that will ultimately satisfy; second, I would put a pleasing environment, and a pleasing, dependable quality of service; third, I think I would put quality of merchandise; and last of all, price.

The CHAIRMAN. Now, in that statement you are giving, I assume, what you believe to be the elements which the consumer stresses?

Mr. BREWER. Yes; in the order of their demand. The price, perhaps, being the last in importance of them.

The CHAIRMAN. That is to say, the consumer would first consider what store he would trade in; the various considerations which you have suggested, substantially in the order in which you have suggested them?

Mr. BREWER. Not necessarily consciously, but practically.

The CHAIRMAN. And in that order you think the price to be paid would be the least important?

Mr. BREWER. Say, rather, the last in importance.

Senator LENROOT. Any retailer who holds that view would, you think, not be very particular about a close margin on prices?

Mr. BREWER. No; that would not follow.

Senator LENROOT. Why not?

Mr. BREWER. Because if he goes too far in his prices, and gains to himself a reputation for extravagance in prices, he goes far to counteract the effect of his other three elements.

Senator LENROOT. That would only go to the extent of the margin?

Mr. BREWER. Yes. I say if he goes too far in how much he charged.

Senator LENROOT. But a merchant holding that view would naturally not feel inclined to hold his prices down to what would be a reasonable margin?

Mr. BREWER. Yes; he would. But in calculating his margin he will take very carefully into consideration the quality of service that he was giving and the real desire of the public in his services.

Senator LENROOT. Why should he if the price is fourth in the mind of the purchaser; why does he consider these other elements and still make only a reasonable margin?

Mr. BREWER. The fact that it comes fourth does not reduce its significance, or its importance; it simply puts it in order. You must take into consideration all of these other items, and to the extent the merchant is able to do so and his business grows in consequence his turnover increases and his ability to hold his prices at a margin which is fair and a safe one for comparison with his competitors' increases. So that his course becomes a part of that wisdom which gains the real point by the broader, less direct path. Not by aiming at narrow economy, but by giving a broader return for the money spent with him. He finds that this gives him ability to set his prices as economically, as closely, as his neighbor who does not aim for those broader elements of service.

Senator LENROOT. Let me put it this way then: If a merchant believed that the purchaser had in mind price first instead of fourth, would not his margin be narrower than it would be if he believed it were fourth in consideration?

Mr. BREWER. No; I do not think so. As a matter of fact, in our own experience it is not so.

The CHAIRMAN. Let me see if I get your idea, if I may interrupt you, Senator.

Senator LENROOT. Certainly.

The CHAIRMAN. As I understand you, the type of goods which you handle, and the type of merchandise, and the quality of service which you render determines to a large extent the extent of the business which you do?

Mr. BREWER. Yes; and add to that the environment of the service in the selling.

The CHAIRMAN. And that environment makes it possible for you to reduce your price?

Mr. BREWER. Exactly. I think, as a matter of fact, our turnover is distinctly larger than that of the average store, and our cost of doing business is less; certainly no greater.

The CHAIRMAN. What is the turnover in your store, if I may ask?

Mr. BREWER. About four.

The CHAIRMAN. Four times a year?

Mr. BREWER. Yes, sir.

The CHAIRMAN. You carry nearly everything?

Mr. BREWER. I am not on my own ground there. I do not give that as absolute, but that is my impression.

The CHAIRMAN. Your turnover means, of course, the average turnover, averaging a great variety of goods, some of which have a very rapid turnover and some less rapid?

Mr. BREWER. Yes, sir.

The CHAIRMAN. In other words, your grocery stock may have a turnover——

Mr. BREWER (interposing). We do not carry groceries.

The CHAIRMAN. You do not carry groceries?

Mr. BREWER. No, sir.

The CHAIRMAN. What do you get the most rapid turnover on?

Mr. BREWER. Wearing apparel.

The CHAIRMAN. Do you carry furniture?

Mr. BREWER. We have to have a rapid turnover on wearing apparel because the styles change so often. Yes; we carry a large stock of furniture.

The CHAIRMAN. The turnover on furniture is rather slower?

Mr. BREWER. Yes, sir.

The CHAIRMAN. The statistical tabulations which we have made indicate that retail prices generally, during this more or less of a slump that has occurred during the last 8 or 12 months, have lagged behind the wholesale prices; can you give us the reason for that?

Mr. BREWER. I don't know that I can. Of course, that would be the natural order. You hold goods as a wholesaler, and I hold them as a retailer, and the start in the movement of goods comes in that way. I still have the goods for which I paid the higher prices. That would be the perfectly natural order.

Senator LENROOT. To what extent is that true of the wholesaler?

Mr. BREWER. I suppose it is equally true of the wholesaler, although the wholesaler starts at the beginning of the line; the retailer is farther down.

The CHAIRMAN. I assume the sequence of events would be this, that as soon as the wholesaler gets his goods and the prices come down from the manufacturer, and he sells those goods to the wholesaler, and the wholesaler sells to the retailer, but the goods come down faster, perhaps, to the retailer than to any other person. He has to dispose of his stock that he bought at the old price; the new stock comes in and comes in competition with the old stock which remains still on his hands?

Mr. BREWER. Yes, sir.

The CHAIRMAN. I wish you would discuss a little bit, if you will, the relation of turnover to the cost of doing business.

Mr. BREWER. You mean that, given the same plant and the same expense, the more rapid the turnover, the less your cost or percentage on the volume of business; in other words, the larger volume of business you do with the same expense of handling the business, the less it costs—the less per cent it costs you to do that business—is that your idea?

The CHAIRMAN. Yes; I want to get at the relation between turnover and cost of doing business.

Senator LENROOT. In your statement you are making an assumption that is not quite correct, is it? You say the same expense. Of course, the volume of turnover does have a bearing, to some extent, on the plant of a given size.

Mr. BREWER. Yes; but given a plant such as ours—a building and equipment and a force of people which is capable of expanding or contracting a great deal in the amount of business done in——

Senator LENROOT (interposing). Without additional expense?

Mr. BREWER. With practically no additional expense. The Christmas business is an illustration of that. We do have to increase the rank and file of employees very largely, but otherwise we do not increase; otherwise there is very little increase of expense.

Senator LENROOT. Could you give us some estimate of this matter: Supposing your turnover, instead of four times, was six, what increase would that involve? I do not expect you to be accurate, of course, but give us some idea.

Mr. BREWER. Suppose the expense of doing business were 20 to 25, and I should suppose we could add another time's turnover without raising it; and yet I would like to have the commission take this as guesswork. As I explained, that is not the side of the business that I have charge of. If you desire a more accurate calculation on that line, I would be very glad to forward to the chairman of the commission such information.

The CHAIRMAN. We would be very glad to have a chart or table showing the relation of turnover to the volume of business.

Mr. BREWER. If Mr. Paull will let me know what points you would like to have covered, I will be glad to furnish it.

Senator LENROOT. What we are leading up to is this: Take your own business. If your turnover, instead of four, would be only twice, would there be any substantial increase in expense?

Mr. BREWER. Increase in expense?

Senator LENROOT. No; reduction in expense.

Mr. BREWER. A reduction of direct expense, but increase in expense of doing business.

Senator LENROOT. Yes; of course.

Mr. BREWER. Yes; a fall like that would make a good deal of difference in the ratio of expense.

Senator LENROOT. That is, in gross; I do not mean percentage. If you could give us some data on that, I think it would be very valuable.

Representative TEN EYCK. Your department store is like a number of stores, all in one, is it not?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. Each department runs separately and with its own cost of overhead and all that, does it not?

Mr. BREWER. Charged to it; yes, sir.

Representative TEN EYCK. Charged to that particular store?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. Now, what is the largest cost that is chargeable to the overhead in these different departments?

Mr. BREWER. Wages, then supplies, then advertising.

Representative TEN EYCK. The largest item chargeable is wages?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. What is the next?

Mr. BREWER. Well, there is only one other.

Representative TEN EYCK. What is that?

Mr. BREWER. That is the rent, light, heat, and insurance, and general charges, which are divided up——

Representative TEN EYCK (interposing). I see.

Mr. BREWER. Delivery is included in that, too.

Representative TEN EYCK. What position does delivery take in proportion to the other costs?

Mr. BREWER. I think our delivery would cost between 1 and 1½ per cent, probably.

Representative TEN EYCK. Between 1 and 1½ per cent?

Mr. BREWER. Yes; certainly not 2.

Senator LENROOT. Have you given the percentage of cost of overhead?

Representative TEN EYCK. No; he has not. I was leading up to that. Now, what is your percentage of wages?

Mr. BREWER. It would run from 18 to 20 per cent, I would think, offhand.

Representative TEN EYCK. And the total of the others that you referred to, other than wages?

Mr. BREWER. The whole direct cost, including wages, would be between 20 and 30 per cent; I should say about 25 per cent.

Representative TEN EYCK. What would be the total of the whole?

Mr. BREWER. Perhaps 28 per cent.

Senator LENROOT. That would not be right, would it? You gave delivery at 1½ per cent and wages at 18 per cent and the other at 25 per cent.

Mr. BREWER. We are not separating them. Delivery is in there with the other items.

Senator LENROOT. Then, the other would be 7 per cent?

Mr. BREWER. Yes, sir.

Senator LENROOT. Delivery 1½ per cent; wages would be included in the delivery?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. He has not segregated it.

Mr. BREWER. Suppose we put it this way: About 25 per cent for general expenses of doing business, and that would include advertising and the delivery and all that, and 2½ to 3 per cent for rent, light, and heat.

Senator LENROOT. What are the items that go into the 25 per cent?

Mr. BREWER. Wages and delivery and advertising; what we would call the direct work of selling goods; and the other item would be the plant—the building, and so on.

Senator LENROOT. That is, taxes and insurance?

Mr. BREWER. Yes, sir.

Senator LENROOT. That is included in the 25 per cent?

Mr. BREWER. No; that would be included in, perhaps, 3 per cent.

Senator LENROOT. You add 3 per cent to the 25 per cent?

Mr. BREWER. You see, I am separating the actual selling of the goods, the business that goes on in the building, from the building itself—the maintenance and operation of the building itself. That would be insurance, and light and heat, and all that. I think I am about right to set 25 per cent for the actual doing of the business and 3 per cent for the other.

Representative TEN EYCK. What you might call the rental of space?

Mr. BREWER. Yes, sir.

Senator LENROOT. It would be more than that; you say insurance and taxes——

Representative TEN EYCK (interposing). The insurance and taxes are included?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. That would be in the rental?

Mr. BREWER. Yes, sir.

Senator LENROOT. The rent, but not the insurance.

Representative TEN EYCK. If a man owned the property and insured it, it would be included.

Senator LENROOT. But the insurance on the stock.

Representative TEN EYCK. The insurance on the stock is also included.

Mr. BREWER. No; I took the insurance on the stock in the 25 per cent.

Representative TEN EYCK. So this 3 per cent would be known as the rental?

Mr. BREWER. Yes, sir.

The CHAIRMAN. Does this 25 per cent include profit on the turnover?

Mr. BREWER. You mean the net profit, after everything is paid?

The CHAIRMAN. Yes.

Mr. BREWER. No; that would not be included in the 25 per cent.

Senator LENROOT. Now, what would ordinarily be added to the 25 per cent for profit?

Mr. BREWER. I do not know what the business nets, but I imagine around from 3 to 4 per cent.

The CHAIRMAN. On the gross sales?

Mr. BREWER. That would be the net profit.

The CHAIRMAN. Net profit on the business?

Mr. BREWER. Yes, sir.

Senator LENROOT. What would be the net profit added to that 28 per cent; you have 25 per cent and 3 per cent; what would be added for the profit?

Mr. BREWER. The net profit would be added.

Senator LENROOT. That would mean a margin between the wholesaler and the jobber's price and the price the consumer paid of 31 per cent?

Mr. BREWER. If I am correct in my figures. I may be a little too strong in that. My impression is that the merchandise represents a little more than 70 per cent.

Senator LENROOT. That is, you think this percentage is probably high?

Mr. BREWER. I say, if it is off the line at all, it is in the direction of being a little high.

Senator LENROOT. A little high, you think?

Mr. BREWER. Yes, sir.

Senator LENROOT. So that with a turnover of four times we ought not to expect a greater increase over wholesale prices than 30 or 31 per cent; is that correct?

Mr. BREWER. If I am right about it.

Representative TEN EYCK. In other words, your gross profits on your sales would be how much?

Mr. BREWER. Around 30 per cent.

Senator LENROOT. Now, of course, that would not run right through—that average?

Mr. BREWER. No, sir.

Senator LENROOT. Can you tell us something about the minimum of percentage upon the gross sales, and the maximum, that goes to make up that average?

Mr. BREWER. Not very well. I made clear to your chairman, or to your secretary, before I came down that that was the side of the business that was not my side.

Senator LENROOT. That would be true?

Mr. BREWER. Oh, yes; absolutely true. Jewelry, for instance, carries a larger profit. Coming down to notions, and things of that kind, they are very much less. And between the two the margin would vary with each class of goods.

Senator LENROOT. Take a business like your own, is there any considerable volume of goods that are sold at cost; sometimes there are sales at cost, I take it?

Mr. BREWER. It has never been Mr. Wanamaker's policy to sell items at cost, or below cost, as a method of advertising, but only in the ordinary run of business when goods have to be gotten rid of.

Senator LENROOT. To get rid of the goods?

Mr. BREWER. Yes, sir.

The CHAIRMAN. Mr. Brewer, what was the effect of the so-called prosperity of 1919 in the movement of retail goods; did they move faster during that period with a tendency to get rid of stocks in anticipation of a drop in price, or what was the situation in 1919?

Mr. BREWER. Nineteen hundred and nineteen was a strikingly good year. The business and demand for goods held on beyond expectation. And, of course, it resulted in getting stocks down in a very healthy degree. It was an advantageous thing from the viewpoint of the retailer.

The CHAIRMAN. Do you think that retailers and wholesalers discounted in advance the probable drop in prices?

Mr. BREWER. Of course, everybody knew it was bound to come. As soon as the armistice was declared everybody knew it was bound to come. The whole thought then was, How are we going to get back to normal again? Just as before the armistice, the thought was, How are we going to get the merchandise the people want? So, as a general thing, the drop was anticipated. But as a direct forecast, or exact forecast, I thnik very few people had their minds clear as to when it would happen.

The CHAIRMAN. You would think, then, your inventories on January 1, 1920, were at a relatively lower point than they were previously during the year.

Mr. BREWER. The effort was made all during 1919 to reduce the inventory, and I should have supposed that general figures would show a distinct reduction at the beginning of 1920. And yet not a very great reduction either, because the demand was strong in 1919 and prices were rising and the volume of merchandise would not be accurately represented by the inventory in dollars. So that probably there was comparatively very little fall, although the effort was constantly on to get rid of goods that were previously on hand, and to live from hand to mouth in supplying daily needs.

The CHAIRMAN. You think, then, during 1919 merchants generally, both wholesale and retail, were anticipating a drop in prices in 1920 or perhaps earlier?

Mr. BREWER. Undoubtedly.

The CHAIRMAN. Now, I think Wanamaker's was the first to make a considerable reduction in prices in recognition of the imminence of falling prices.

Mr. BREWER. Yes.

The CHAIRMAN. Now, if you are willing to do it, I would like to have you explain the reasons which moved you in adopting that policy; the economic and financial reasons.

Mr. BREWER. I will be very glad to give you our whole mind on the subject. In the first place, as I said, it was manifest to everyone that the break would have to come.

In the next place, Mr. Wanamaker, personally, is a very unusual man. He is a far-seeing man; has a vision of things in advance which carries him ahead of the average person.

In the next place, he is more than a merchant; he is a statesman. He thinks in terms of the life of the country, and he knew perfectly well that the time had come—that prices were abnormally high—that the break must come, and to precipitate that break at a time when it would be most beneficial, was a thing that a man who was as preeminently a leader and as sincerely devoted to the good of the people as he, would regard his duty.

And so when he did come to that conclusion, and it was after a great deal of consideration and many conferences with his chiefs of the New York store and the Philadelphia store, he came to it from both of those points of view.

The CHAIRMAN. Can you state when the conclusion was arrived at?

Mr. BREWER. The final conclusion was arrived at on the day before the publication of it in our advertisements.

The CHAIRMAN. There was no considerable interval, then, between the time when you arrived at the conclusion as to what was going to happen and what he was going to do and the time when he did it?

Mr. BREWER. No; there were a number of days of study and thought, but when the final conclusion was arrived at the statement was dictated and published the next day.

Representative TEN EYCK. Do you remember what day that was, approximately?

Mr. BREWER. I think Mr. King would know. I know we finished on the 4th of July.

Mr. King. About the first week in May.

Mr. Brewer. We had the full months of May and June. It was very early in May, I think.

Representative Ten Eyck. What year?

Mr. Brewer. 1920.

Mr. King. It was the first month of the market break.

The Chairman. Had there been any general reductions in wholesale prices before this policy was adopted by you?

Mr. Brewer. As I remember, very few; and in a great many instances the tendency was still up rather than down in wholesale prices. One of the things that our action took into consideration was the fact that many lines of wholesalers were showing a tendency to stiffen instead of lowering.

Senator Lenroot. Was that a 25 per cent reduction?

Mr. Brewer. Twenty per cent.

Senator Lenroot. Then during that time you actually sustained a loss in money in making that reduction?

Mr. Brewer. Yes, sir. When I say a loss I would have to analyze exactly what was meant by that. Certainly a loss on the great mass of individual articles and lines directly affected.

Senator Lenroot. No; I do not mean that. If your cost of doing business was 28 per cent and your profit on gross sales was 3 per cent and you made a reduction of 20 per cent, you must have sustained an actual loss.

Representative Ten Eyck. Was not your reduction in those goods in which you had over 33 per cent profit?

Mr. Brewer. You can not pick out a month's business and apply figures to it that way. It is a question of what you replace the goods with that you sell; how they, the latter, sell then, and so on.

Representative Ten Eyck. There were lots of things that you did not reduce at all at that time?

Mr. Brewer. We took 20 per cent flat off of everything.

Senator Lenroot. I was just coming to that, Mr. Brewer. Surely in dollars there was a loss, but if you could replace those goods at the same reduction, there would be no loss?

Mr. Brewer. That would average down the loss. It is all a question of the conditions existing and the conditions to follow.

The Chairman. How long did the 20 per cent reduction continue?

Mr. Brewer. During the two months of May and June, ending the 3d of July.

Senator Lenroot. Were prices then restored?

Mr. Brewer. The 20 per cent was. A good many goods were repriced. Some went up to former prices again; not all, but many of them.

Senator Lenroot. That led to very largely increased sales?

Mr. Brewer. Yes, sir.

Senator Lenroot. Was there an almost complete turnover in those 60 days?

Mr. Brewer. I do not believe I know. It was large.

Senator Lenroot. If it was four times during the year, probably it would be almost a complete turnover with the added sales, would it not?

Mr. Brewer. Yes, sir.

Senator LENROOT. So that you were restocking your store then at a lower price level?

Mr. BREWER. Yes, sir.

Senator LENROOT. At the end of the period?

Mr. BREWER. Yes, sir.

The CHAIRMAN. In order to get some idea of the volume of this business, how did this sale compare, for instance, with your Christmas business?

Mr. BREWER. Well, we say among ourselves, it gave us a Christmas business. I am not able to say from memory how exactly that is true. I do not think, as a matter of fact, it did. But it gave us so abnormally large a business that we compare it in that way when we speak of it.

The CHAIRMAN. Are there any figures, or is there any sound opinion as to the extent to which a business which is increased over a short period holds that increase; I mean, did you make any new customers who continue to do business with you in the store?

Mr. BREWER. Yes; I think we did. I think we made new friends, decidedly.

The CHAIRMAN. Is there any way of estimating the percentage of your business which represents customers who trade with you regularly, and who are transient people who come in from time to time, or only occasionally?

Mr. BREWER. No; there is not. Of course, customers who carry charge accounts with us we regard as regulars, and the cash purchasers include the transients, though they are not by any means all transient. But I do not know of any way by which we could judge how much was transient and how much was regular. Philadelphia is not a place where a large transient business is done. It is much more in New York and Chicago than Philadelphia.

The CHAIRMAN. What I am trying to get at is the extent to which the consumer is influenced by his own habits in trading with certain people as compared with how he is influenced by consideration of prices which may exist temporarily, perhaps, in other stores.

Mr. BREWER. The interest and eagerness for "bargains," for specially priced goods, is always great, and there is always a large response when special lines of goods at particularly low prices are advertised.' I suppose that always breaks into the habits of a purchaser a good deal. Aside from that, each store has a fairly regular clientele of its own.

Representative TEN EYCK. Did you do this in all your stores?

Mr. BREWER. Both stores: we have but the two—New York and Philadelphia.

Representative TEN EYCK. You spoke of Chicago; I did not know what you meant by that.

Mr. BREWER. No: I said there was not as large an element of transient customers in Philadelphia as there is in New York and Chicago.

Representative TEN EYCK. Did any other of the department stores do likewise?

Mr. BREWER. No; they had their various ways of advertising price reductions on this, that, and the other lot. They advertised large reductions, but, aside from a few of the smaller stores, I think we were the only one.

Representative TEN EYCK. The reason, then, that you really made this clean-up was on account of Mr. Wanamaker's foresightedness, and it was like the early bird catching the worm; he sold his stock before there was a general sale of that kind of goods over the two cities; is that true?

Mr. BREWER. I think it helped to make his action more of a success.

Representative TEN EYCK. To stand out?

Mr. BREWER. Yes; the fact that the others did not follow.

Representative TEN EYCK. Now, in relation to the 20 per cent discount, that was on what price—the selling price or the purchase price?

Mr. BREWER. The goods remained priced as they were, and the salesmen simply took 20 per cent off of the sales slip.

Representative TEN EYCK. Was this 20 per cent below the actual cost price of the goods in any instance?

Mr. BREWER. Yes; in a great many.

Representative TEN EYCK. Do you know whether or not at the end of the two months you had a deficit in the store for each month or a small profit?

Mr. BREWER. We do not figure it out month by month. I do not think I could answer that question.

Representative TEN EYCK. I thought that your departments made a report to the general manager or superintendent each month of sales and purchases and profits.

Mr. BREWER. That is going on all the time. Sales are reported every night, and purchases are reported when they are made. The incoming goods are reported as they come into the invoice department; the price reductions are reported; and so month by month the general-merchandise manager is able to keep the individual department chiefs posted as to what margin they have to make purchases for the next month.

Representative TEN EYCK. Not only posted, but he tells him what he has got to do if the business is falling off.

Mr. BREWER. Yes; to keep him under control.

Senator LENROOT. What determines the actual fixing of the actual sale price?

Mr. BREWER. They go by a factor that has grown out of the experience of the store. If you were the head of the furniture department, the factor of profit would be higher than mine, if I were the head of the clothing department.

Senator LENROOT. I understand that.

Mr. BREWER. That has grown out of the experience of the store.

Senator LENROOT. But take a rising market; I take it the stocks evidently are adjusted to a rising market, are they not?

Mr. BREWER. Yes, sir.

Senator LENROOT. So that upon a rising market——

Mr. BREWER (interposing). But adjusted more automatically than directly. The factor would be the same.

Senator LENROOT. Let us see. Supposing here is a commodity that is bought 60 days ago at a low price, and to-day comes on a rising market, we will say, which has increased 50 per cent. Now, in fixing the price of a commodity bought to-day, would you not adjust your price of the same commodity on hand?

Mr. BREWER. That would depend entirely upon the circumstances. The policy of the store is to sell goods they have on the basis of the actual purchase price. If you were a department chief and you had a small lot left of goods that you bought at one figure, and you had to buy that same line of goods at a higher figure, naturally your small lot would be priced up with the new lot when it came in. But if you have a large lot of goods, and the price goes up, until you have to buy again, while your stock lasts, you sell at the old rate.

Senator LENROOT. Do you think that is a general rule, or the rule of your store?

Mr. BREWER. There is no general rule. As I say, it must depend upon circumstances. I know that we were very conservative in that line. Mr. Wanamaker is not one to join in the profiteering rush to raise prices. I know that there was strong pressure brought to bear upon our various department chiefs to prevent their raising the prices of their goods, although they would have to pay more when they came to replace them.

The CHAIRMAN. Generally speaking, then, the goods were not sold during this period of rising prices in the retail trade on the basis of replacement only?

Mr. BREWER. No, sir.

The CHAIRMAN. You think they were sold rather on the basis of what they cost?

Mr. BREWER. I think so, and the prices went up as the purchase price went up, on the actual goods purchased at the new prices.

Representative TEN EYCK. And is it not a fact that Mr. Wanamaker's store sells its wares for less gross profit than most of the similar stores in the city of New York?

Mr. BREWER. I think it is.

Representative TEN EYCK. Is that due to the economic way in which he handles the operation of his store, or a policy of his?

Mr. BREWER. Both. His policy throughout has been to hold prices down, so that if you deal with him you can feel that in the long run, in general purchasing, you are protected against overcharge. Then, in addition to that, there is the other policy that I spoke of at the beginning, of giving a generous, pleasing, dependable quality of service and environment. While those factors add a direct expense they also increase the turnover, and therefore, I believe, our general expense of doing business is less than that of the average store.

Representative TEN EYCK. Do I understand you to say that you did not increase your prices abnormally during the war on articles purchased previously?

Mr. BREWER. Yes; on goods we already held.

Representative TEN EYCK. On goods you already held?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. Now, how did you prevent—in case of silk, we will say—how did you prevent other stores from coming in and buying over your counter silks and things of that sort where your normal retail price was actually below the new wholesale prices?

Mr. BREWER. That does not often happen.

Representative TEN EYCK. It did happen, though?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. What did you do in that instance?

Mr. BREWER. In some instances we had to regulate the amount we would sell to any one purchaser, and in some instances we just let it go.

Representative TEN EYCK. Now, in relation to the concentration of wares of this sort in large department stores. The other day we had a gentleman here who spoke of the retailing of food products, and he made the suggestion that it was better for a community if it had a large population to increase the number of grocery stores and fruit stands throughout the entire city, as he felt that it was better for the trade to have many stores distributed throughout the entire city for the ease of purchase of goods. What is your idea in relation to that?

Mr. BREWER. I think there is, perhaps, an increasing line of distinction between these smaller businesses that are locally close to the people and must necessarily deal largely in staples and the larger businesses that can afford to do as we do—bring in the unusual and extraordinary things and offer a range of merchandise and variety of new things to help lift the choice of the people.

Representative TEN EYCK. Does not Mr. Wanamaker deal in canned goods and goods of that sort?

Mr. BREWER. We do not deal in groceries at all.

Representative TEN EYCK. I thought you did at one time.

Mr. BREWER. No; at no time.

Representative TEN EYCK. I was mistaken. Are there any department stores who deal in them?

Mr. BREWER. Yes; a great many of them do. In Philadelphia Gimbel Bros. do. In New York Macey's do, and several do in Chicago.

Representative TEN EYCK. What effect has the increase of local stores throughout the community on prices?

Mr. BREWER. It is a hard question to answer. Generally speaking, you have got to consider that there is something besides the merchandise itself that you buy. As a purchaser you buy convenience, and you buy pleasurable surroundings, and so on. Now, the small store gives you an ability to run in and get what you want on the spur of the moment; that is a convenience. It is very much, I suppose, as the competition that seems to be coming between delivery of freight by truck and delivery by the railroads. The railroads, I guess, are finding it necessary to study how they can make their freight deliveries more convenient and make it less necessary for the man who is receiving by freight to go a long distance and fetch his goods, because the automobile truck is bringing the goods closer to him.

Representative TEN EYCK. That was your original slogan of service, was it not—one of them, when you started?

Mr. BREWER. Yes, decidedly. But service is of a good many different types. Now, these smaller stores unquestionably are growing, and I think the type of service between the two is differentiating more and more, but whether with a distinct effect in raising or in lowering prices, I am not in position to tell. Certainly, the big chain stores, like the American stores, do claim, and seem on the face of it, to sell lots of things at lower prices. The big mail-order establishments, like Sears, Roebuck & Co., with conservative, staple lines of goods, unquestionably can sell at low prices.

Representative Ten Eyck. The Williams store in New York, now in Brooklyn, or Williams & Sons; that is a mail-order store which sells cheaper?

Mr. Brewer. I am not familiar with it.

Representative Ten Eyck. There is quite a big store there. What do you think the bearing will be of the continual growth of these small stores on the economic condition of the country?

Mr. Brewer. Speaking very generally, it seems to me that we are not going to find much change one way or the other. The small store will continue to develop to the extent the public finds itself satisfactorily served by it, and the large store will continue to develop to the extent it is able to offer what the public wants. It is not in a margin of greater or lesser economy between these two that we are going to find very much difference in the cost of living. We must get back to the question of production, we must find a way to stimulate that; we must find a way to protect the producer so that his effort and his life in producing are satisfactory to him; so that he is attracted to it. We must find a way to control things, so that the power to step in between the producer and the consumer and hold up the line of flow of goods and levy a profit without adequate return—that that power is checked. So that in the production end will be the attraction to the man who wants to make a living; the attraction be at the producing end rather than in the middleman's position. As to the retailer, as I said, I think you will always find it will not be narrow economies that will mean very much in the long run. In proportion as producing brings the return that it ought to, to that extent the number of people attracted to the middleman's positions will grow less, automatically less; and the retailer will find, just as he finds now, that as he pleases his public, his public will buy from him, and that the prices of his goods are one element in the pleasing always, and he must keep his prices normally down.

Representative Ten Eyck. Have you anything to suggest that can be done along that line, for undoubtedly in running such a large mercantile establishment as you are operating you have had a great deal to do with the purchases of goods and have endeavored—I imagine you are continually endeavoring—to get as close to the producer as you possibly can to buy cheaply. I understand that the proper purchases at proper prices of proper materials has really to a great extent to do with either success or failure in the business?

Mr. Brewer. Yes; of proper purchases in two regards—to get the goods that the public will want and to get them so that you can give the public a right price on them.

Representative Ten Eyck. Now, give us a little experience along that line, and what your suggestions would be as regards who to eliminate or what to eliminate; put yourself in the place of this commission.

Mr. Brewer. You have got me on ground where I feel very hesitant. I will say what I have in mind, but I do not feel equal to the problem. However, this may have a bearing. One of our men has just returned—one of our buyers—from abroad. He found the market abroad high, not breaking, and with not too much goods in sight in his line, and yet he told me that he had bought freely, more so than

some of our other buyers. The others were more conservative. As he put it, "I feel confident that I can sell my goods and I am getting them at a better price abroad than I can get them from the importers in this country, and so I am taking the risk that some of the other buyers have not taken; they have bought more conservatively abroad, and will take the chance of having to pay higher prices to the importer here." Now, that element of risk always enters in. I know I am not answering your question now; I am simply making this statement for what, if any, value it may have. Now, I take it you are asking if I have any thought——

Representative TEN EYCK (interposing). That will cut down the cost of distribution.

Mr. BREWER. That will cut down the cost of distribution; yes. Of course, the biggest element of abnormal cost is the waste of idleness, whether it be idleness of people, of plant, of merchandise, of freight cars——

Representative TEN EYCK. Or capital?

Mr. BREWER. Yes; or idleness of capital. Now, if I am a manufacturer or farmer, anything that would enable me to have guaranteed for myself such a return for my goods as would, under any forecastable circumstances, keep me from breaking, would encourage me to keep going and keep my employees at work, keep my organization unbroken. I have wondered whether the time would not come when we would find that an insurance element must enter in to assure a return on the output up to a certain point. This would include, of course, the question of how, as a country, we could take the goods that are idle at one point and instead of leaving them idle and a waste all up and down the line, put them out where they are needed and at a price that would at least keep the wheels moving. The same question is up constantly with regard to labor—how to shift from where it is not wanted and is not serving to the place where it is wanted and can serve. Always, if done, thus artificially—we will call it artificially—always at a price which would not put the movement into competition with the natural flow of merchandise or of labor.

Representative SUMNERS. May I ask a question right at that point: Do you regard that it would be more economical to assist the machinery for the shifting of merchandise and labor, both with regard to vocation and locality, than it would be to attempt to sufficiently stabilize the production so that this shift will not be necessary?

Mr. BREWER. You are asking a question that only experience and the actual circumstances could answer. In actual experience neither of those processes would prevail over the other. Both would enter in. If we were living in a small community and there was more produced than the normal living of the people of one part of that community required, while scarcity prevailed in another part, I take it we would find a way to take the surplus here and use it over there.

Representative SUMNERS. Well, there is an irresistible economic drift, is there not, toward vocations and locations of greatest profit?

Mr. BREWER. Yes; that irresistible economic drift, of course, is one of the forces, but it is only one.

Representative SUMNERS. Do you think anything could be done by legislation or by arbitrary methods which would be more efficacious,

anything more than merely to provide an open way, an unobstructed way through which this shift may take place?

Mr. BREWER. I am hopeful that something can be done and feel that something will have to be done. If, for instance, there were no fire insurance, there would be, I think, nothing like the same normal possession and building of homes there is to-day.

Representative SUMNERS. Do you mean that people would not have houses?

Mr. BREWER. Oh, yes; they would have houses, but they would be struggling with difficulties with regard to their houses, just as the farmer is now with his crops and the manufacturer with his stocks from time to time. But my ability to build a house and insure it gives me a confidence, and I go on. Now, it does not seem reasonable that we should go on living with such conditions unmet as do exist. The manufacturer scents his dull time coming and he stops manufacturing. He says, "I will produce nothing excepting I have the order for it"; and, of course, that presses back and back as people are out of work, and the corner grocery does not sell as much goods, and so on. You know the whole story. The farmer produces his stuff, and it is needed—needed tremendously—in New York or somewhere else, but he can not get enough to pay him for harvesting and shipping it. That was true of apples in New York State last year or the year before. And you know better than I do how often it is true.

Representative SUMNERS. What would you do; would you have a fixed price, or a price-fixing board which would say to the farmer that for his different products he shall receive a certain price?

Mr. BREWER. I have looked forward, gentlemen, to the time when there will be a sort of insurance principle in these matters, worked out in private business but governmentally directed, that would mean this: If I can insure myself and therefore go forward with confidence that if I produce I can at least get a price out of my goods that will keep me from breaking; and that in so far as the normal flow of business does not give me that, there will be an agency which will direct the disposition of my stuff, and will recover for itself what is represented by its insurance of me in the best way that it can.

Representative SUMNERS. But in order to do that, would you not have to establish standards for manufactured articles to which they would be compelled to conform, especially with respect to quality?

Mr. BREWER. You never find standards established very rigidly about anything of this kind. It would be a question where the stuff could be disposed of to the best advantage, and how. You certainly would have to establish agencies for taking over and disposing of the surplus goods, or an organization to control the sending and disposal of it.

The CHAIRMAN. Let me see if I get your idea: A low price of a commodity is usually the result of a relatively small overplus of the commodity in a given locality?

Mr. BREWER. In a given locality, yes; but not in the world.

The CHAIRMAN. Now, your idea is some form of insurance which, I think, you do not use at all in a technical sense?

Mr. BREWER. No.

The CHAIRMAN. Which will provide a means whereby that overplus can be removed from the community where it is, thus relieving the pressure which compelled the sale below the cost of production?

Mr. BREWER. Yes, sir.

The CHAIRMAN. To some other place where it can be consumed at a price, even if that price may be abnormally low in the other place?

Mr. BREWER. Yes, sir.

The CHAIRMAN. The relative increase in price in the community where it was a weight upon the market will be large enough to take up the slack occasioned by your having to sell at some other place at a lower price?

Mr. BREWER. Yes; and with that would be my ability to insure myself up to a certain point—by paying more I could insure myself higher, of course—up to the point where I felt I could assume the risk of going ahead with my production. And if I did that, I would be removed from the temptation of deliberately underproducing, whether I was a manufacturer or farmer, and my employees and my community would, to that extent, continue as normal consumers, instead of dropping into abnormal underproduction. I could get rid of my surplus and it would go to where it was needed, and the amount of surplus would——

Representative SUMNERS (interposing). What is to prevent it now, without the operation of law, from going to the place where the greatest price is offered?

Mr. BREWER. Oh, so many things. Of course, I realize when the farmers in a community unite——

Representative SUMNERS (interposing). You are speaking agriculturally, I take it—of farmers especially?

Mr. BREWER. I am speaking generally.

Representative SUMNERS. It is interesting to have you get into that.

Mr. BREWER. I feel that where farmers are uniting and creating cooperative markets they are accomplishing this very process we are talking about, although not fully. And I realize that the manufacturers can get along in the same way, but we all know that we have not got past the times when you, as a manufacturer, hesitate to keep your mill running unless you have got the actual orders in hand, nor have we got past the time when I, as a farmer, raise my wheat with high hopes of a good price and when the time comes get less than it cost me to raise it.

Now, the thought I have, am reaching out for, is to change those conditions. We would do it if we were a little community among ourselves. I thing our whole salvation rests in learning to do it on such a big scale that the country can do it as a whole.

Representative SUMNERS. Under such an arrangement of guaranteed profits, how would you permit the economic law to operate which would shift the surplus from the place where it was not needed to some place where, through some necessity, the public required the employment of the products.

Mr. BREWER. Of course, I can not answer you that any more than when fire insurance was first conceived they could tell you of the enormous companies and their methods that are operating to-day. I only know that it seems to me to be a reasonable thing. I do not

know about insuring a profit. I do not know that you could go to that extent. When your house burns you do not get a profit out of your insurance; it simply keeps you from breaking, and you go on. But I do feel, with a principle like that established, we would find a way to create the machinery.

Representative SUMNERS. If agricultural producers could standardize the items of their production, the various crops, and there could be established an exchange system in places where the standordized products should be listed for sale and buyers could resort there, in person, or by agents, and have a financial machinery provided to make the orderly marketing of agricultural products possible, might it not be possible to provide machinery under which the economic laws—the laws of Almighty God—would help this thing out, rather than for Congress to try to enact mandatory legislation?

Mr. BREWER. Well, I have three thoughts on that: In the first place, to the extent this thing you are talking about is or shall be done, our problem will be reduced. There is much to be gained along that line.

In the next place, it is not my thought that the Congress would work this out to any great extent, any more than it works out fire insurance. I think that is for the business men to do.

Representative SUMNERS. Fire insurance is for physical loss.

Mr. BREWER. No; it is insurance against loss of the amount of your financial ability that your house represents.

Representative SUMNERS. I know, but what you are trying to protect against——

Mr. BREWER (interposing). What we are trying to protect against is my going broke if my house burns down and I have not the money to buy another.

Representative SUMNERS. Of course, that is the incentive which causes the person to undertake to protect himself against loss; to protect himself against the loss from the physical destruction of his house.

Mr. BREWER. It prevents the man who is insured from being in the position of the farmer who can not market his crop; it is the same principle in the end, as I look at it. But we would look to Congress only for regulating measures. The thing itself must be worked out by the people themselves.

Now, the third point: I think we all believe in the uniting of fruit producers and farmers, and so on, and the standardizing of prices and placing of agencies to handle their goods. There will always be the ups and downs of market conditions. You can not meet the whole problem that way, though you can go a long way toward it.

Representative SUMNERS. You can not control the volume of production.

Mr. BREWER. No; nor a good many other factors.

Representative SUMNERS. The hazards of production for instance.

Mr. BREWER. So, as I see it, there is always going to be some necessity for some such insurance system. Sooner or later, I believe the country will come to it.

Senator LENROOT. I would like to ask you, Mr. Brewer, whether the spread in costs—speaking of percentages, and speaking of what

the consumer pays and the producer receives—if the spread is not very much greater to-day than it was formerly?

Mr. BREWER. You ought to ask an economist that question. I think the general assumption is that it is, that the middleman is getting a bigger slice than he is entitled to, under right management of things. It would be wise that he should not have it; that he be a producer or distributor, and not an intermediate with arbitrary power to control the flow of things.

Senator LENROOT. If some remedy could be found to remove that cost, at least in part, is not that the greatest single thing that can be done for the relief of the general situation?

Mr. BREWER. Yes; and it is just that that I feel this that I have been talking about would go far to accomplish. The sooner you can guarantee me as a farmer or manufacturer a reasonable safety and a reasonable return for my investment and labors the more you will encourage me to remain as a producer and become a greater producer. And the more you can make the business of producing safe and profitable the more you will automatically take away from the middleman. There may have to be laws to regulate the per cent of profit the middleman can make, and so on. I can not go into that with you at all. But I believe our big question is how to make the producer safe and make his business stable and attractive and give him confidence, so that he can go into production strong and hopeful for his life's career.

Senator LENROOT. You stated, did you not, Mr. Brewer—or there was some testimony here—that the cost of the article has a very material bearing upon the price that is charged for that article, did you not?

Mr. BREWER. Oh, absolutely.

Senator LENROOT. If there are three grocery stores in a block, or four we will say, where one or two could render the service, could not the cost of distribution be very greatly decreased, at the same time paying as great a profit to the one store as each of the four now receives?

Mr. BREWER. I think you are feeling for an artificial control there that will never be successfully worked out. I think the three men will say they are entitled to do business there if they want to, and if they can each make a living under the conditions prevailing it is legitimate that they should. If the conditions prevailing enable them all three to make a living when only two are necessary, then the trouble is with the conditions and not with the three stores, and you will not change it very much by lopping off any of the stores.

Senator LENROOT. Assuming—and you will assume for the purpose of my question—that 10 years ago there was not anything like the number of retail establishments there are to-day, and 10 years ago there was a very much less spread between what the producer received and what the consumer paid, would not a limitation—I am not speaking of congressional action—but a limitation upon the number of the retail stores in a given territory have a beneficial result?

Mr. BREWER. Yes; but it will have to be done indirectly. If there is an overamount of water flowing in this channel and it is depleting this important pond, you must deepen the other channel and the

waters will automatically adjust themselves. Now, if we can find a way to make production the adequate and confident assurance of a living for a man, you will deepen that channel and there will be a falling off from the other and a larger flow into the old pond of normal life. It will have to be by some such process as that, and not by arbitrarily saying you can not fish in this stream because there are too many fishing here already. Stock the other stream and make it attractive to the fishermen and he will go to it of his own will.

Representative TEN EYCK. Theoretically speaking, or practically speaking, do you not lay a map before yourself or the purchasing agent and ascertain at various times from the people who handle the goods that you are purchasing the profits that are made by each, with the ultimate idea of getting close to the producer, so that you may buy your wares cheaper; is it not a fact that Mr. Wanamaker now goes to the fountain of production on account of his ability to buy in large quantities?

Mr. BREWER. Yes, sir.

Representative TEN EYCK. And thereby under buy a great many other people who have to pay tribute to a number of commission men?

Mr. BREWER. That is one of the elements in good merchandising; yes, sir.

Representative TEN EYCK. Does not that hold good in the same way with the consumer, if he could get closer to the producer and eliminate the go-betweens and the commission men?

Mr. BREWER. Yes; but in saying that you are not indicating any method by which you can eliminate the go-betweens.

Representative TEN EYCK. No; and that was my original question to you, whether or not you could give us, from your vast experience, what the people of to-day can do to accomplish what you are doing in Mr. Wanamaker's store.

Mr. BREWER. I have tried to say what I have in my mind on the subject. There is unquestionably existing the power to-day to control goods and prices between the producer and the consumer; people who have the power of large means, and people who have the power of legislation; people who have control of transportation and commodity exchanges, credits, and so on. There exists to-day, I believe, hurtful ability to hold up, so to speak, the flow of produce from the producer to the consumer and levy tribute upon it; that is true and the way to check it must be found. But that is only one of the difficulties. To my mind that would disappear almost if you could find the way to make the producer the strong and confident man, and the work of the producer the attractive calling in life. If you could do that, you would automatically draw away from the attractiveness of the middleman's station.

Representative TEN EYCK. Of course, if you do that you will make the farmer—I am talking now of the farmer particularly——

Mr. BREWER (interposing). Yes; or the manufacturer, either way.

Representative TEN EYCK. To make the farmer's life easier and more attractive you would not actually increase the cost of production materially?

Mr. BREWER. No; not necessarily.

Representative TEN EYCK. Well, you would have to increase the cost of his living?

Mr. TEN EYCK. Yes; but not necessarily the cost of his production; not by any means, necessarily. In the first place, I am not laying stress on ease. I am laying stress on his ability to feel that his farm is an economic foundation under his feet on which he can stand solidly and build a good living upon it, commensurate with his aptitude and work.

Representative TEN EYCK. That is a fact, but he does not do that to-day.

Mr. BREWER. No.

Representative TEN EYCK. He has not the conveniences of all the rest of his brothers in industry.

Mr. BREWER. No; but they will come.

Representative TEN EYCK. And, therefore, it will increase his cost of production, which it should not do.

Mr. BREWER. No; it will increase his volume of production, and he will have a larger turnover. He will be a stronger producer and a larger producer, and he can draw to himself the things——

Representative TEN EYCK (interposing). He can not increase the amount of his turnover——

Mr. BREWER. I speak of his "turnover," because his output corresponds to the turnover of a merchant. He can draw to himself these things of better living without increasing his cost of production. I think that would work out inevitably.

Representative SUMNERS. Mr. Brewer, in response to the inquiry made by Mr. Ten Eyck a moment ago, you stated that you were able to get nearer to the sources of supply than perhaps the man with a small business, and you are able to reach the sources of supply because you have a large business organization which includes, I assume, a competent and comprehensive purchasing organization in connection with the business.

Mr. BREWER. Yes, sir.

Representative TEN EYCK. Of course, the little men can not do that, because it takes a big business to support the business organization which can reach from the sources of supply to the areas of distribution. It seems to me that the tendency would be to crowd the little men out and to develop instead big business and toll-making power; it would seem to me that perhaps the only way in which that could be avoided, short of licenses and fixing of prices, would be to attempt to establish, so far as possible, a route around privately controlled distribution; a route around available distributors and producers, in order that, automatically, the economical value would be held to be the basis of the service rendered. It seems to me the basis of such a law would be to throw back into the avenues of production the unnecessary accumulation in the channels of distribution. I do not see how it can be accomplished, except, in a few words, arbitrarily fixing the profit, or giving the economic law a chance to regulate it. Perhaps, to make myself a little clearer, and bring it down to your particular business, if this route around the privately controlled avenues of distribution could be established, then your concern could only charge the economic value of service. In other words, you would have to render your distribution service

at a price which would be more attractive to the public generally to avail itself of it than for it to undertake to effect the change itself. Have you considered the possibility of being able to regulate matters of the spread and that sort of thing?

Mr. Brewer. You can not make the handling of small purchases as economical in proportion to value as the handling of large purchases. When you say a "route," do you mean a transportation matter?

Representative Sumners. No, sir; I do not. I mean this, and I want to illustrate it: In the old days, when the community was the industrial organization and the public markets obtained—brought down from the very ancient times—there was the possibility of direct trade between the people who produced the commodities and the people in those communities who consumed the major part of the surplus which the farmers of those communities produced. Under such a condition as that I do not believe it would have been possible for the small merchants in the little county-seat towns, for instance, to have charged an exorbitant profit; nor would it have been possible for an unnecessary number of merchants to have made a living out of merchandising in those communities. If they undertook to charge too much for the hams which Mr. Brown produced on his farm when sold to Judge Smith, Mr. Brown would go to Judge Smith's house and deliver his hams in person.

Mr. Brewer. I think that would cover only a part of our requirement. I do not think, historically, it has been shown to have much effect. The small shops that you find in the cities abroad, especially as you go farther east, have all grown up under such primitive conditions, and they multiply and multiply. I think that public markets unquestionably have a part to play and are bound to come into whatever plan develops, as we live on. They are bound to come in more and more. But they are not going to cover the whole question any more than the cooperative stores in England, which do millions of pounds of business—regulate the general business—which is the question we are after.

You are assuming that there is a tendency to drive out the small store. I think you are wrong there. I think perhaps the small store is prospering more than it ever did. There is always this element to come in, Mr. Chairman. Say, I have a peculiar ability in the matter of ladies' tailoring, and I open a store of my own. My personality goes into my work. I create my own conditions. I would be out of place in the harness of a big store; I would not be happy there; I would not succeed there. But to the extent that I produce something that the public wants I make a success out of my little store, and always will.

Representative Sumners. But the volume of business is more and more being done by the big stores.

Mr. Brewer. I do not think so.

Representative Sumners. Let us see. Relatively and comparatively, a short time ago there were no department stores——

Mr. Brewer (interposing). The population has developed tremendously, and business, the variety and volume of demand, has developed tremendously.

Representative Sumners. That is why I used the term "relatively." They are doing the business which was done by a number of stores.

Mr. BREWER. One of the big questions is whether a store with a central management can continue to compete with the smaller store in which the personality and the effort of the proprietor enter most directly, and he gives a personal hand-to-hand service that the more impersonal large store finds hard to give. It is one of the questions for the future.

Representative SUMNERS. You think the smaller store——

Mr. BREWER (interposing.) I say, that is one of the questions time must answer. No doubt the big store has a bigger opportunity to sell cheaper in large quantity; and it does. It has its own field. The small store has its own field. The small store has an opportunity and a power of direct personal service that the large store has not as yet developed as fully. And whether the one is to give way to the other, or both go on equally strong is a distinct question for the future.

Representative SUMNERS. Now, Mr. Brewer, because of your large experience in distribution, I would like to ask you a few questions drawn from your judgment and experience, in regard to the difficulties of agriculture. Of course, the hazards of agricultural pro duction, in so far as they result from the uncertainties of seasons and insect pests, and things of that sort, are inherent in the business. Those hazards, at least in some countries, I understand, and to some degree in this country, may be protected against by ordinary insurance. Perhaps "ordinary" is not the right word, but by insurance.

Mr. BREWER. They are not, to any general extent, are they?

Representative SUMNERS. There are some insurance companies that write insurance against those hazards.

Mr. BREWER. But it is by no means general.

Representative SUMNERS. Anyhow, that is a difficulty that I believe we conceive there is some possibility of meeting. Now, the farmer's great difficulty comes in marketing and in finance. I think his difficulty in marketing is perhaps his fundamental difficulty, because no business can be more unstable than the market in which it sells——

Mr. BREWER (interposing). But that does not mean that he can not learn to make his markets more stable.

Representative SUMNERS. That is the difficulty, exactly. I am indicating the difficulty.

Mr. BREWER. Yes, sir.

Representative SUMNERS. The difficulty of marketing itself, aside from the element of instability which is thrown in by the uncertainty of supply and uncertainty of volume of production arises out of two causes—perhaps three causes: One is that there is no concerted action among agricultural producers with reference to the volume of their commodities which go on the market at a given time; and that, perhaps underlying that, is the fact that their commodities go to market under the influence of pressure exerted at the points of production, which arises out of the fact that the commodity is there ready to market, or through financial pressure.

Mr. BREWER. In other words, you have to remove the element of competition to a large extent.

Representative SUMNERS. You have got to make possible some uniformity in the flow of commodities to the markets.

Mr. BREWER. Yes, sir.

Representative SUMNERS. Now, there is no method—no system under which it is now possible for the farmer to send his commodity to market in an orderly manner when it is ready for market, or to resist when there is pressure upon him to compel him to put it upon the market; that is, perhap, a fundamental difficulty.

Mr. BREWER. Yes, sir.

Representative SUMNERS. Now, when you sell it is to meet a discovered demand to buy; your commodities move from your possession to the buyer, of course.

Mr. BREWER. There is that same uncertainty. If you were a buyer for a store like ours there would always be that uncertainty as to whether your purchases would go out as you hoped they would.

Representative SUMNERS. Your uncertainty as to whether or not you are buying in quantities too large is an uncertainty similar to the uncertainty of the farmer as to what the volume of his crops will be.

Mr. BREWER. With the added element of character of goods. You may find that you have bought stuff that the retail market is going to drift entirely away from.

Representative SUMNERS. And the farmer may find that he has too much volume?

Mr. BREWER. Precisely.

Representative SUMNERS. By reason of a favorable harvest in one section or another section?

Mr. BREWER. They are both in very much the same boat.

Representative SUMNERS. By different causes, they are about in the same boat?

Mr. BREWER. Yes; very much.

Representative SUMNERS. Now, when they are in the same boat, however, this fundamental difference seems to obtain. When your commodity leaves your possession it leaves in response to an established want.

Mr. BREWER. Yes, sir.

Representative SUMNERS. And goes from your possession under prior sale.

Mr. BREWER. It goes from my possession——

Representative SUMNERS (interposing). Under prior sale?

Mr. BREWER. Yes, sir.

Representative SUMNERS. In other words, you do not send your stuff around to see whether you can find somebody to buy it?

Mr. BREWER. Yes; in other words, we sell direct to the consumer.

Representative SUMNERS. Yes; and the farmers' commodities go on the market to seek a buyer.

Mr. BREWER. Yes, sir.

Representative SUMNERS. It may happen to go into a congested market.

Mr. BREWER. Yes, sir.

Representative SUMNERS. It goes out of his possession, if it is live stock, and goes into a stockyard, with a high expense for maintenance, and with shrinkage, and is sold when he is at that relative disadvantage.

Mr. BREWER. The manufacturer is in about the same position, too.

Representative SUMNERS. Does the manufacturer ship his commodity away from his warehouse before he has a buyer?

Mr. BREWER. He manufactures in advance on a risk, to a very large extent; that is, when he is running normally.

Representative SUMNERS. With reference to the demand?

Mr. BREWER. Yes, sir.

Representative SUMNERS. I do not believe that obtains in this stage of our development.

Mr. BREWER. Perhaps not.

Representative SUMNERS. It is not, in that position, subject to attack, if I may use the expression, from that particular point.

Mr. BREWER. Perhaps not; I was using it as an illustration.

Representative SUMNERS. But what I am getting at is this—that we ought to be able to establish some sort of machinery under which, to a large extent, agricultural commodities can move from the point of production to the point of use and move in quality and quantity as required, instead of this blind, haphazard method by which these commodities are shipped out all over the country, with the hope that they may find somebody who wants to buy them at the point to which they are shipped.

Mr. BREWER. Now, you are getting exactly at the same thought I tried to express. I expressed it a little differently; I put it in the form of insurance. But we must find some way to give the farmer a safe return, so that he can operate. And, consequently, we must find a way to take the stuff to the place where it is needed and where it can be used to the best economical advantage and to the best advantage of the people.

Representative SUMNERS. Have you considered this, that the farmer's commodity is going to market in this unsystematic way and to be sold to the highest bidder—because that is the way it is sold—makes it impossible for him to look to the future, to maintain the necessary surplus of agricultural commodities?

Mr. BREWER. Yes: I think so.

Representative SUMNERS. In order to protect the public against the hazards and uncertainties of the next year's production, because nobody knows when a drought or insects are going to come.

Mr. BREWER. I say that it puts the advantage all into the hands of the middleman.

Representative SUMNERS. Does not that uncertainty also carry a peril to the fellow who must eat?

Mr. BREWER. That, too, is what I meant. It puts the advantage into the hands of the man who can store to-day. If he can dictate the price at which he buys, and if he can dictate the price at which he sells, he has a tremendous advantage.

Representative SUMNERS. Here is the difficulty, even about trusting that the middleman will hold the surplus—to illustrate: Supposing that this year $2 a bushel is a price which we would pay the farmer; with full energy he would go to the production of another crop. Now, the speculator can hardly afford to pay that price, assuming that this particular year we have a two months' surplus above demand for consumption during the year. The speculator could hardly afford to pay that $2, because if he should pay that $2 he knows that he will have to meet the competition of the next crop, when the farmer raises another crop. In this year, say, we produce 14 months' supply——

Mr. BREWER (interposing). I think it all comes back to the same thing, that we shall have to find a way to insure or guarantee a safe return to the producer, and the same must hold true for the speculator, the middleman, who should have the same opportunity to insure. You would reach a time when the producer was the man most encouraged to go on, and that would mean the encouragement of consumption. It would mean that the middleman, I think, automatically would find himself in a less advantageous position. In any case this element of safety and confidence applied to the producer—and applied to the handler, the middleman, if the handler remains, as he undoubtedly would, in some form or another, behind the producer—would do away with a vast amount of discouragement and hesitation that now exists and would steadily increase production and lift the normal of consumption.

Representative SUMNERS (presiding). If that is all, Mr. Brewer, we are very much obliged to you for your statement.

Mr. BREWER. You are welcome, indeed. I have taken up a great deal of your time.

Representative SUMNERS (presiding). We have taken a great deal of your time.

Mr. BREWER. Not at all. I came here to put myself at the disposal of the commission.

Representative SUMNERS (presiding). The commission will stand in recess until 1.30 o'clock this afternoon.

(Whereupon, at 12 o'clock and 20 minutes p. m., the commission stood in recess until 1.30 o'clock p. m. of the same day.)

AFTER RECESS.

The commission resumed its session at 1.30 o'clock p. m., pursuant to taking of recess.

STATEMENT OF MRS. H. C. BODEN, PHILADELPHIA, PA.

Representative SUMNERS (presiding). Mrs. Boden, some other members of the commission will be here in a short time; and in view of the fact that we are running behind our schedule, I think you might begin now by giving us an introductory statement as to who you are and in what capacity you appear here.

Will you state your name, please?

Mrs. BODEN. Mrs. H. C. Boden.

Representative SUMNERS. Whom do you represent, Mrs. Boden?

Mrs. BODEN. I have been asked by Dr. King to represent the consumers' interests.

Representative SUMNERS. Do you sustain any official relationship to any consumers' organization?

Mrs. BODEN. I am very active in the women's club movement in Philadelphia.

Representative SUMNERS. You live in Philadelphia?

Mrs. BODEN. I live in Philadelphia; yes, sir.

Representative SUMNERS. How long have you been interested in the matters concerning which you propose to testify now?

Mrs. BODEN. Since about November, 1917, when I took charge of the woman's division of food conservation for Philadelphia County for the United States Food Administration.

Representative SUMNERS. About how long did you hold that position?

Mrs. BODEN. I held that until we closed the Food Administration, about February, 1919, I think we finally closed out.

Representative SUMNERS. What were your duties in connection with the service which you then rendered?

Mrs. BODEN. My duties there were connected with educating the women of Philadelphia County to conserve food. In the early part of the work it was the use of substitutes, other materials than flour, for war bread. We established a number of war kitchens all through the city where we held demonstrations to show the people how to use substitutes in place of flour. That was my first experience. I went in as they were beginning that campaign and subsequently enlisted the support of all women's organizations to cooperate with the Food Administration. We furnished Pennsylvania State College with headquarters and organization for an intensive campaign of their home extension department. We also organized the Philadelphia food army.

Representative SUMNERS. Have you had occasion to study the questions involved in the distribution of food commodities or any other phase of distribution within the city?

Mrs. BODEN. During the Food Administration my work was wholly with the consumer. Later, in 1919, I organized a woman's committee on prices, composed of representatives of women's clubs and operating with the advice and approval of the United States district attorney, Mr. Kane. Shortly after our work began, Mr. Palmer, United States Attorney General, appointed a fair-price commission for Pennsylvania under Lieut. Gov. McLain. I had charge of the food work during the existence of that commission.

My duties then were not at all connected with the consumers; they were all connected with conferences among retailers as to the cost of food and the spread they were getting, and the probable chance of bringing prices down for the benefit of the consumers. That was the fair-price work.

After that was over, I was interested last winter in the work of one of the women's clubs of the city, by which we were trying to get through a series of investigations to find out why there was such an enormous difference between the wholesale and retail prices of food in Philadelphia. We started an investigation through the commission men as to the prices of certain commodities, like potatoes, apples, onions, oranges, and lettuce, and we unearthed some very interesting details.

One of the large Philadelphia papers had promised us to print everything that we could gather together, and they did print for several weeks the results of our work. We had discovered that the shippers were getting about $1.25 to $1.50 per hundred head of lettuce, and at the same time in the open market they were selling for from 25 to 30 cents a head. We just mentioned the fact of the wholesale prices in this little box that we were allowed in the paper, and in the next few days there was a remarkable drop. We had in-

structed our club people to go to every market and ask why they had made these enormous prices for lettuce. We began to think we were getting somewhere——

Representative SUMNERS. Pardon me just a minute. I see you have sufficiently introduced yourself. You had a conference with Dr. King, I assume, and have in your mind the order in which you desire to present whatever you purpose to present to the commission. Now, you may proceed in your own way.

Mrs. BODEN. It seemed necessary, Mr. Chairman, to give a brief summary of the foundation that has been laid in Philadelphia for food work, and the same is true all over the country. The general consuming public is the largest unorganized body in the world. But we have as a nucleus for organization the Women's Clubs in the United States, with over 2,000,000 members trained to work, and with departments committed to the study of food, its production, distribution, and consumption. Two million women are being organized by the Catholic Church into a national council, and all over the country women are being organized politically with the definite policy that they will stand for the things that are necessary to make their homes better.

And one of the greatest things is to have better food at lower prices. That is what we need all through the country, and I am sure that this commission can go a long way toward giving that to us.

Representative SUMNERS. Just tell us how we can do it.

Mrs. BODEN. I would not attempt to do that. However, I have thought for a long time that if the food supply of the country were offered to the consumers with one iota of the principles on which any great business is conducted, neither the producer nor the consumer would suffer so constantly from overproduction with its subsequent loss, nor underproduction with its following of high prices. The merchant creates his market by advertising, and thus sells the goods he must move for profit. If the producers of food, especially those dealing in perishable foods, would pursue this policy toward their consuming public I believe there be would immediate relief in markets and prices.

Or, if the Department of Agriculture would cooperate with the marketing bureaus of the different States of the Union, and advertise when they have a quantity of goods on the market, I believe we could move those goods better than we do.

Last year the apple crop was tremendous, but what did those growers and shippers get? They lost heavily on it, because by the time they paid the transportation charges they had to put their apples in storage because there were too many to move, and after they paid the storage charges they were a dead loss. But if there had been a concerted movement all through the country to put before the people the fact that there were millions of apples and that barrels of apples could be purchased at a certain price and stored for the winter I believe those apples could have been moved. But nobody knew about that. We knew about it, because we were investigating through the commission merchants. Don't you think there is reason in that?

Representative SUMNERS. You ask me a question. My own notion has been all the time, with regard to the economical distribu-

tion of agricultural commodities, that we must first standardize so that the people who live in Philadelphia, for instance, when they read about apples of a certain grade for sale they will know what is meant. Then after we have standardized them it is necessary to establish a place where there can be acquired information as to where apples may be bought, and get in trading contact with them and be assured that there will be integrity in the transaction and that exactly what is purchased will be received.

Mrs. BODEN. I understand that exactly. But now the Department of Agriculture stands back of a great deal of home work. They have a big home extension department. Our State college has a big home extension department. Now, why in the world can they not bring the farmer and consumer together?

Representative SUMNERS. I agree with you absolutely. That is the thing I have been trying to accomplish ever since I have been in Congress.

Mrs. BODEN. That is a thing I have been working on in Philadelphia. But you can not do it single handed. We have had the cooperation of the New Jersey Bureau of Markets and the Pennsylvania Bureau of Markets, but you see we have not the money to carry it on, and we do not have the prestige.

Representative TEN EYCK. Is not this about what you would like to have done: In the various large markets, in the thickly populated districts, have an understanding, through the chambers of commerce or the boards of trade, with the daily newspapers that they will call to the attention of the public at large that at certain times, when the peak of production has been reached in relation to the various food products, when tomatoes are at the peak of production and coming on to the market in great quantities, notice should be given the public that such is the case in relation to tomatoes and that then is the time to buy tomatoes to can?

Mrs. BODEN. I certainly do.

Representative TEN EYCK. And the same way with peas, the same way with beans, the same way with all classes of food products; bring that to the attention of the public at that particular time, when things are produced abundantly, so that they would not only take care of the overload but would get their produce at a lower price?

Mrs. BODEN. Exactly. Now, here is another thing. When Mr. Wanamaker has too many shoes, what does he do? He does not send them to the manufacturers, and he does not dump them into the Delaware River; he advertises a big sale of shoes. Why does not the Department of Agriculture do that?

Representative TEN EYCK. Let me say with regard to the Department of Agriculture that it would be rather hard—and yet it could be done—for the Department of Agriculture to watch out and keep in mind the various communities and the peak of production in those particular localities at the different times of the year. But that could be done through the chambers of commerce and the organizations that represent the people locally, and in cooperation with them, through the medium of the daily papers, call to the people's attention whenever there is an oversupply of any particular article, so that the consumer could take advantage of it and at the same time relieve the farmer of his overload.

Mrs. BODEN. That is what I mean.

It is not only a case of overproduction; it is a case of underproduction. For instance, when we have a shortage of potatoes, bring that to the public's notice and say, "Please buy and use substitutes. Do not buy potatoes; there are very few in the market, and you will only force the price up if you buy them." Don't you see there ought to be cooperation between the producer and the consumer? The reason I brought in the food work of the Food Administration is to show that there has been a wonderful foundation laid for cooperation along that line.

Representative SUMNERS. You have made some study of conditions in Philadelphia and the terminal markets and the questions of spread in distribution. I imagine if you will give us the result of that study it would, perhaps, be as valuable to the commission as anything else you could tell us.

Mrs. BODEN. Of course, I am very proud of Philadelphia, but I am not proud of its terminal markets; and we ought to have the very best food in the world. We are at the gateway. We have New Jersey, Delaware, and Pennsylvania all at our front door. And do you know what they do? They ship their goods to Baltimore or New York, and we do not get them, and yet we ought to have the garden products of the most fertile part of the country. But we can not take them in; we have not the accommodations for them. We have a terminal market in Philadelphia which is very antiquated and very insanitary.

Mind you, we have 1,800,000 population in Philadelphia. This market handles from 80 to 95 per cent of all the package goods that come into that city, and it has one entrance for trucks. Consequently, the trucks have to line up there all night, all around the square, and they charge so much an hour; and by the time the last truck gets into that market and loads you can imagine what the costs are for that produce that is put on that truck.

They can unload from 75 to 200 cars there daily, but they are all unloaded out in the open and all that stuff is put on the trucks, and then it is carted down to the wharves and commission houses from Thirty-second Street—the wharf is beyond Front Street. Then our hucksters and food dealers go down to the wharves and stock up there, and they bring that stuff back and sell it out to the people. By that time, as you can imagine, there is a good deal added to the original wholesale cost.

The citrus fruits are brought into the Pennsylvania docks and the B. & O. docks at Pier 12, along the river. We have a belt line, but the belt line is never operated. There is some undercurrent that, of course, we do not go into very much. Consequently, when a carload comes in at the Pennsylvania Railroad and they want to get it up to the B. & O., which is about six blocks, they send it out of the city and switch it onto the other tracks and bring it in again, and that adds about 20 per cent to the cost of the original product. But, of course, it saves using the belt line.

Representative TEN EYCK. Have you ever explained this to Mr. J. Hampton Moore?

Mrs. BODEN. Yes; Mr. Moore has had this brought before him several times. But we had a little difficulty before Mr. Moore's

incumbency with the marketing situation in Philadelphia, and it did not pan out just as we hoped it would do. I shall not go into that story, but Mr. Moore is apparently afraid to touch the marketing situation. He is like the boy with the hornet, you know; he does not know whether to take it or not.

What we really want in Philadelphia is sufficient terminals for our food to do away with the middleman. If we could have a big terminal somewhere on the water front where we could have a capacity of 500 cars a day and have big refrigerating plants of our own, where goods could be stored without charge, and have a market so that the people could come and buy right there, we would have the finest food supply in the country, and at the lowest prices.

Representative Ten Eyck. Are you recommending community storehouses?

Mrs. Boden. Well, I have not quite gotten to that point. I do not quite know whether I am or not. We wanted to do that, and several communities in the city—blocks—have gotten together and gone down and bought, say, a whole side of meat, or a whole carload of things. They have tried that in the university, through the Franklin Cooperative Society, but, of course, they have to have a membership to do it.

Representative Ten Eyck. I do not mean in that sense of small communities in the city. My question related to a large municipal warehouse where these things could be placed and thereby held in good condition for a small charge.

Mrs. Boden. Yes; that is what we want. But such storehouses would open up the subject of the food supply of the city, and we feel that Mayor Moore has his own reasons for keeping that quiet.

We are talking about entertaining the world in 1926. How can we do it? We have not enough food for our own people. We can not possibly supply food even for what we have.

Representative Ten Eyck. It would be very interesting if you would tell us about some of the differences in prices that you found at the time you made your investigation.

Mrs. Boden. We investigated the California products. We investigated the California lettuce, which is a great luxury and which we all like very much, and we found that California lettuce was selling for anywhere from $2.50 to $3.50 a crate. Now, a crate has 100 heads in it, and that would make the price anywhere from 2½ to 3½ cents a head. It was selling in the open market at that time at 30 cents a head. On investigation we found that those California shippers had to pay $2.65 freight charges on that lettuce, and they were losing money; they were not making a cent on it.

Representative Ten Eyck. They were paying just about as much as they got for it?

Mrs. Boden. Just about as much in some instances, and in some instances a little less than what they got for a whole crate. When we asked the newspapers to give publicity to these rates they politely said to us. "We have no more space in the paper."

Representative Ten Eyck. What did the consumer have to pay for that?

Mrs. Boden. The consumer had to pay from 25 to 30 cents a head for that same lettuce.

Representative TEN EYCK. Then the big spread was not in the freight?

Mrs. BODEN. Not at all.

Representative TEN EYCK. It was in the case of the retailer or the distributor after it had reached the city of Philadelphia?

Mrs. BODEN. Exactly so. What I want to make very clear is the fact that after our trucks reach Philadelphia they go through so many hands and they make so many trips back and forth there across the city, and they are loaded and unloaded, and everybody takes a turn at adding a little bit here and adding a little there, so that by the time it gets to the retailer it is not the fact that the retailer has taken out so much, but every middleman has taken his profit. Really, the retailer is not getting an exorbitant price.

Representative SUMNERS. Did you trace that shipment of lettuce through all of its movements to the consumer?

Mrs. BODEN. No; we traced it to the commission houses.

Representative SUMNERS. And you do not know what the commission houses sold it for?

Mrs. BORDEN. No; we only know what the commission houses paid for it. They paid the wholesale price for it. It is the same way with oranges; we traced those to the commission houses.

Representative SUMNERS. How many different hands do these commodities pass through before they get to the retailer?

Mrs. BODEN. They should not pass through a great many different hands. Of course, they come to the commission houses——

Representative SUMNERS. Let us take this lettuce. That comes to the commission houses?

Mrs. BODEN. That comes to the commission houses. Then somebody buys that lettuce.

Representative SUMNERS. At what price?

Mrs. BODEN. They buy that lettuce for about $1.50 a hundred—not of the California, but of the home grown.

Representative SUMNERS. I know, but let us trace this particular shipment. How much do they pay for that?

Mrs. BODEN. $3.50 a hundred.

Representative SUMNERS. That is 3½ cents a head. That is what the California growers got?

Mrs. BODEN. That is what the California grower got.

Representative SUMNERS. And the consumer paid from 25 to 30 cents?

Mrs. BODEN. From 25 to 30 cents a head. The commission men are supposed to get 10 per cent on their sales. That is what they claim they get, and I do not believe they get any more than that.

Representative SUMNERS. Did that high price for lettuce tend to deny the use of lettuce to the average family and to reduce its consumption?

Mrs. BODEN. Yes, I think it did. But, you know, there are lots of people that will pay any price, and like to tell how much they pay.

We had a very interesting experience during the Food Administration that I wanted to speak about, because it shows how we can educate our women in Philadelphia. We undertook to raise a food army. We used the city wards and put a so-called woman lieutenant

at the head of each ward. Then we used the voting divisions of the city and put the women sergeants at the head of them. Then we had every block organized, and one woman on each block was made a corporal, and she was responsible for all the information disseminated to that block. Once a week we would have this matter printed and handed to the block corporal, and she would go to every house and distribute it. In that way we kept in touch with almost every family as to the foods that were available, the foods that should be served, the foods that should be substituted, and the different requirements of the occasion. And they responded, because every woman is of the firm conviction that she practically helped to win that war by conserving food. It was a splendid thing, and I know they could do it again.

The CHAIRMAN. Do you think it could be done in the absence of the patriotic impulse that we had at that time?

Mrs. BODEN. I do not think it could be done with the same snap, but I think that an educational campaign could be carried on among the housewives. I think they have had a demonstration, and they would respond if the Government would put its seal on it. You see they have gotten in the habit of looking for advice, and they are concerned all the time with the facts that they must buy for their families.

The CHAIRMAN. I am afraid, as far as I am concerned, that we have not discovered anything we could advise them to do, except to quit buying.

Mrs. BODEN. That would not be a very good thing, would it? That would be hard on the farmers.

The CHAIRMAN. It would be eventually.

Mrs. BODEN. We are afraid we would have to advise them to put a little truck patch in their back yards after we heard of the transportation difficulties.

The CHAIRMAN. Has any effort ever been made in Philadelphia to discuss through your organizations the retail marketing question?

Mrs. BODEN. Oh, yes; indeed. We have had a number of meetings. We have had retailers, and retailers are most willing to cooperate with us, with only one or two exceptions. We have had the meat men come, and they have given us full information on the meat and the different kinds of meat. We had a campaign on that to show the different kinds of cattle, large and small cattle, and differences between the two, and how some stores could sell meat at a relatively lower price—naturally it was not the same class of meat. We had that explained very thoroughly.

The CHAIRMAN. You can get information enough, but did you get any results in the way of getting retail prices somewhat nearer the wholesale prices?

Mrs. BODEN. When we investigated the retail meat prices, we found the retail meat butchers were practically, in some instances, making less than 10 per cent on their prices.

The CHAIRMAN. Well, who is making it?

Mrs. BODEN. I do not know. I guess the packers are getting the money, are they not?

The CHAIRMAN. Well, they say they are not. Everybody is passing the buck around here. We are trying to find somebody who knows where it is right now.

Representative TEN EYCK. Do you know the packers are doing business on from 1 to 2 cents turnover? That was brought out before another committee.

Mrs. BODEN. I should not wonder at all.

Representative TEN EYCK. Of course they make 14 turnovers, but that is only 28 cents. They are only making from 80 cents to a $1.50 on a steer, but they sell a great many steers. But if the individual takes the profit on a steer he would get very little in a steak. It would be so small that absolutely you could not find it in the steak.

Mrs. BODEN. The trouble is that if the steer was all made of steaks that would be a very different matter, but meat demands are for the quick meats, for the chops and steaks, and the butchers have to charge enough for the steak to pay for all the waste that is in the rest of the carcass. They have gone over that with us over and over again, and I really believe that if the public would only buy the lower grade and use the cheaper cuts it would bring down these high prices.

Representative TEN EYCK. I am not taking the side of the packers or anyone else, except that we want to find out where the greatest spread is, because you can always save the most out of the greatest pile.

Mrs. BODEN. That is right.

Representative TEN EYCK. Did you inquire as regards the price that the packer sells his meat to the retail man, and then compare that with the price that he purchased it at?

Mrs. BODEN. Yes; we did. I can not give you the figures on that, but I know we did.

The way those meat men sell meat in the city is this. The small corner grocer only buys part of the animal; he will buy the quarter that is most called for, and he has to pay apparently for the whole steer, and in order to cover his loss he has to sell those popular cuts at an abnormal price, because the other cuts are not called for at all.

But there is another matter, as I say, about educating the consuming public; if they would only be taught to buy the cheaper cuts of meat it would bring down the whole price of the meat. You can see that.

Representative TEN EYCK. I appreciate that. And what I am endeavoring to ascertain is where this great spread lies, and the cause.

Mrs. BODEN. I believe the cause is the demand for just certain cuts out of the animal, and that forces the whole price up.

Representative TEN EYCK. What the committee wants to know is how to take care of that. You must remember we are legislating from a national standpoint, and the States, under our Constitution, would object to our coming in and regulating local industries.

Mrs. BODEN. You could not, really.

Representative TEN EYCK. Now, that is a question that the bureaus of markets in the States would have to take up, and I believe that they, in turn, would have to appeal to the cities and the communities to cooperate with them to accomplish what you desire.

Mrs. BODEN. I think so.

The CHAIRMAN. Did you go into the relative price of hind-quarter meat and fore-quarter meat? Was there really any difference in the price?

Mrs. BODEN. Yes; there was a difference in price.

The CHAIRMAN. Considering the quantity of meat and the amount of bones and all that?

Mrs. BODEN. Yes; there was a difference in price.

The CHAIRMAN. You really think there was a difference in price in favor of front-quarter meat?

Mrs. BODEN. Oh, yes; a great difference in favor of front-quarter meat.

The CHAIRMAN. I had the impression that there was a great deal of bunk about that.

Mrs. BODEN. That is perfectly true. We investigated that.

You see, we have different grades of meat; that is another thing. I do not see how you could standardize food in a city, because there are those differences. We have city-dressed meat—that is absolutely the best. We have the small cattle that are cheaper. That is very good, but not as good as our city-dressed meat. Then we have the big meat butchers in the terminal market, each selling the very best prime beef, and people go there and they know what they are getting. The price ranges all the way from the little meat shop out in West Philadelphia that advertises sales of meat at 15 and 18 cents a pound—but they are selling an inferior grade of cattle. Yet the meat is good, and they are really making the same profit as the big men who charge the bigger prices, because they pay a great deal less for their meat. You can not set a standard for anything like that, but you have got to educate the people to know what they are getting. That is why I am in favor of getting right in touch with the consumer to give them an educational campaign.

The CHAIRMAN. I was unfortunate in not hearing the first part of your statement, so I do not know whether you have covered what I have in mind or not. Is it your judgment that the way to get at the question of retail prices is through organizations of the consumers?

Mrs. BODEN. Yes; that is my judgment. I do not think you could get at it any other way. How could you? How can you go to the retailer and try to standardize their products and try to fix the prices of what they sell? Of course I would like to see the public educated up to read the market reports, but they do not. They do not know what it means. But if there was a small article in the paper every Friday, the day before marketing day, saying that tomatoes are selling at so much a basket wholesale, and butter is ranging so and so, and eggs can be bought for so and so, and then they will go to their grocers and say, "How dare you charge me 60 cents a dozen for eggs when they are selling for 25 cents wholesale"? That is a matter of education, and you can not get food prices down to any sort of sensible level until you educate the people how to buy food.

Now, in department stores you do not see the women getting fooled, because they have plenty of chance to go shopping, and they know the grade of goods, and they go from one store to another and examine things and learn prices. Women are the very best shoppers in the country, but you see they have not any chance to do that in food. They have no way of finding out what they are getting, or anything about it.

The CHAIRMAN. I imagine as far as food is concerned, most of them buy what they want without any reference to what is in the market.

Mrs. BODEN. You would be surprised to learn the facts. We thought that too. Our picture of the situation was that most of the women sit in a comfortable sitting room and take the receiver off the hook and phone to the butcher to send around so and so. When we investigated that during the war we found that only 15 per cent of all the housewives in Philadelphia had telephones. There you have an enormous army of people that have to go out with their own market baskets and buy the food.

The CHAIRMAN. Did you get any information about what proportion of those people buy at the corner grocery?

Mrs. BODEN. Almost all of them; a large percentage of them.

The CHAIRMAN. Do you have large retail markets in Philadelphia, such as we have in Washington?

Mrs. BODEN. Yes—I won't say large ones. Our market at the Reading Terminal is our big market.

The CHAIRMAN. And that is wholesale?

Mrs. BODEN. Retail and wholesale, but mostly retail. People come from all around the surrounding country to that market. They have the very best food there, and the very highest prices.

The CHAIRMAN. The prices there are higher than in other places?

Mrs. BODEN. Higher than in other places.

The CHAIRMAN. And that, you think, is due to the better quality of the food?

Mrs. BODEN. The better quality of the food. There are certain stalls where meats are sold at lower prices during certain times of the day, and you can go to them and procure your food cheaper. after the rush is over, say, betweeen 2 and 5 o'clock, and you will see women coming in there and getting their food at lower prices.

We had the old Second Street Market in the southern part of the city, and we have a fairly good farmers' market in West Philadelphia.

The CHAIRMAN. That is a vegetable market?

Mrs. BODEN. A vegetable and meat market, and chickens and dairy produce.

The CHAIRMAN. But the relative proportion of the purchases that are made on these markets is quite small, I take it?

Mrs. BODEN. Yes. Most of our food purchases, I would say, would be made at what are sometimes called specialty shops, shops that sell meat alone, or vegetables alone. In North Philadelphia they have very fine shops with good food and low prices. That almost amounts to a community section, because the Logan people have recently acquired their homes, and they demand good food at low prices, and are getting it.

The CHAIRMAN. One of the difficulties of the situation seems to be that there is no uniformity about it, not even in the same city or next door. You have one section of the city where there is a corner grocery stock, and that is all there is, and you have another city where they have community stores of all kinds, grocery stores, drug stores, hardware stores, and the complete community outfit.

Mrs. BODEN. The stores size up the community. For instance, I live in West Philadelphia, and I do my marketing at Fortieth and Market Streets. I go there, and I say, "How is it you are selling chickens so high?" And they will say, "Well, if you want a cheaper

grade you will have to go on out to Fifty-second Street; they have a demand for them out there, but we keep the best here." You see, it is the law of demand and supply.

Representative TEN EYCK. Is that really a fact, that the other community does not get just as good food? We had a gentleman from California here the other day that sells a great deal of the citrus fruit in the entire country, in New York City, and gave us a demonstration, that oranges that sold for a certain price in the terminal market at auction were sold in some stores in New York City at a dollar a dozen, and sold for 60 cents per dozen over on the East Side. The people who live over there demanded the best fruit that can be obtained, and know what they are buying, because they are composed of people who eat a great deal of fruit——

Mrs. BODEN. And they came from Italy.

Representative TEN EYCK. They came from Italy—they have the same oranges, the same class and the same grade, all out of the same cargo, and they only pay 60 cents a dozen.

Mrs. BODEN. Of course, that is perfectly true. Don't you see, it is because those people are educated in oranges, and that is what I say. If our consumers were educated and knew what they were getting they would fix their own prices; and they would get it, too, because they get what they ask for.

Another thing about California. Here is California with her "Sun Kist" oranges. They are known all over the world, and why? Because they spend money on publicity. If our farmers would do the same with their apples and potatoes and tomatoes and watermelons, they would not have a bit of trouble in disposing of them.

Representative TEN EYCK. Why can not the women in Philadelphia start a good campaign on that?

Mrs. BODEN. The Philadelphia club women have had food campaigns and food demonstrations, but they are necessarily limited to groups and localities. They will indorse to their utmost a publicity and educational campaign through the newspapers authorized by the Department of Agriculture through its State Bureaus of Markets.

The CHAIRMAN. Did you make any investigation of the actual machinery of distribution in Philadelphia?

Mrs. BODEN. Well, no; I can not say that I did. The commission men mainly come into the terminal markets out there at Thirtieth and Chestnut and gather up the food as best they can and take it down to the wharves and sell to the retail trade. Small hucksters come down there and buy and hawk it through the city streets; that is, the perishable foods. And, of course, we have the curb markets. We thought that was going to be wonderful. We thought at last we were getting the farmer and consumer in touch with each other. We established these curb markets and farmers came in, and we found they were just the old hucksters of the city dressed up. They came in there with a nice farm price for their products, and they carted them all the way from the receiving terminal and back again and hawked them all through the city.

The CHAIRMAN. Why did not the farmers come in?

Mrs. BODEN. The farmers could not spare the time.

Representative TEN EYCK. Don't you license your hucksters in Philadelphia?

Mrs. BODEN. Indeed we do.

Representative TEN EYCK. Under the law they ought to have a sign on their wagons that they are hucksters.

Mrs. BODEN. I know, but they did not display them.

Representative TEN EYCK. Well, I would suggest that you take that up with Mayor Moore again.

Mrs. BODEN. We gave that up in despair.

Representative SUMNERS. Do you find any indisposition on the part of the newspapers to advertise these markets of yours which compete with their regular advertisers?

Mrs. BODEN. Yes; the newspapers were not interested.

Representative SUMNERS. You do not have many people up there in Philadelphia, except yourselves, who are enthusiastic about this movement?

Mrs. BODEN. Not a great many, except, as I say, the women consumers, who will stand by us if we put on a campaign for them. But we must have more than ourselves back of it.

Representative TEN EYCK. How do you think this committee could assist you?

Mrs. BODEN. It seems to me that if the commission would advise the bureau of markets in the different States, as I have said, to make public the different stocks in the market, when there is plenty and when there is scarcity, and educate the people to looking in the newspapers for the official report. If you only issue it once in a while, it does not mean anything; but if they look there every Friday morning for a bulletin from the marketing bureau of their own State, even if it is just a 2-inch square in the paper, I believe our housewives would expect that and would make their purchases accordingly. Have it signed "Bureau of Markets." Then, you see, there is no feeling about anything. The Pennsylvania bureau of markets is under the care of a most able man, Mr. Rasmussen, and we would have authority back of us.

Senator CAPPER. What information would you have carried in that bulletin?

Mrs. BODEN. We would like to have marketing news every week, even if it is just one article of information. For instance, it appears that watermelons will be plentiful. At the summer resorts in New Jersey they are keeping up the prices and charging from 80 cents to $1 apiece. In the city of Philadelphia they can be bought for a quarter of a dollar or less, and we shall soon hear that they are a dead loss to the farmer, because the market is overstocked. There is too great a discrepancy in prices.

The Jersey farmers, for instance, are charging 70 cents a dozen for eggs, and you can buy them for a great deal less in the city.

Representative TEN EYCK. I might say for your information at this time of the year the farmers get very few eggs.

Mrs. BODEN. That is true.

Representative TEN EYCK. Those are storage eggs?

Mrs. BODEN. They are fresh farm eggs. I was talking yesterday with a friend of mine from York, Pa. You know, it is nice to have a hobby, because you have always something to talk about, so I immediately asked her what she was paying for eggs, and she said, "Oh, eggs are very high up in York." "Are they?" I said. "How much

do you pay?" She said, "Thirty-seven cents a dozen." "Well," I said, "you have nothing on New Jersey."

In the suggested weekly bulletin I would like to have some information that the housewife could go by, because I know if she would go to the stores and say, "I have the authority of the Bureau of Markets that such and such a price is a fair price for this commodity and I refuse to pay any more," we would soon be able to keep the prices where they belong.

Representative MILLS. What is a fair price?

Mrs. BODEN. In our fair price committee we tried to have a spread of 20 per cent, or 30 per cent up in a very expensive locality.

Representative MILLS. For the retailer?

Mrs. BODEN. For the retailer.

Representative MILLS. How much are you going to figure it for the commission merchant and for the wholesaler? What would be a fair price, I mean?

Mrs. BODEN. I think the bureau ought to fix a fair price. Take eggs, for instance. If eggs are worth, say, 30 cents a dozen wholesale, it seems to me they would have authority to say that 30 per cent increase is a fair price. Don't you think so?

Representative MILLS. No; I should think if you had a market bulletin that published the price every day you would probably have gone as far as you could.

Mrs. BODEN. Of course, you have to know the grades you are getting. But they publish the wholesale prices in the back of the paper every day.

Representative MILLS. I know they do, and so they know every day what the wholesale prices are. I do not see how you can control the retailer, because obviously what is a fair price for a retailer in one section of the city is not a fair price for a retailer in another section of the city.

Mrs. BODEN. Don't you think if we gave the information to the consumer that such and such a price, with a certain percentage added for overhead, was a fair price for her to pay, then it would be up to her if she wanted to pay a fancy price?

Representative MILLS. What percentage would you add for the retailer? There is no fixed percentage, is there?

Mrs. BODEN. In our fair-price work in Philadelphia we tried to fix that.

Representative MILLS. But, obviously, a retailer who owns a shop in a section of the city where rents are low has a much lower overhead.

Mrs. BODEN. That is what we did; we gave them 20 per cent overhead where the rents were low. If they paid 30 cents a dozen for eggs and they had an exclusive shop in an exclusive section of the city we were willing to stand by the 30 per cent increase in their prices. In a cheaper part of the city it was 20 per cent for overhead.

Representative MILLS. Well, don't you think, in the long run, if you are going to say that 30 per cent profit is a fair profit for a retailer, that will adjust itself, with the competition there is?

Mrs. BODEN. It has not done so.

Representative MILLS. Well, now, a curious thing is this. This gentleman who is at the head of the California Fruit Exchange and

who has 20 years' experience back of him—they have investigated retail prices very carefully—showed that the retail price followed the wholesale price with absolute accuracy, that the curve was identical over a period of, I think he said, 15 years, and that the retail profit was fairly constant, varying between 24 and 29 per cent.

Mrs. BODEN. Mr. Ten Eyck has just said that in New York the California oranges were selling in one district for a dollar and in another district, exactly the same oranges, for 60 cents.

Representative MILLS. Yes; of course. If you buy on Fifth Avenue and buy on Tenth Avenue there is a very big difference. But they were speaking of average prices.

The CHAIRMAN. But that would be true only, I imagine, if you took a very large number of transactions. Of course, the tendency, if you took a large number of transactions, would be for the curve to come to an apparently common basis.

Mrs. BODEN. I see that.

The CHAIRMAN. I think that if you took a single article and followed it over a long period, you would find a considerable fluctuation in the margin between retail and wholesale prices. For instance, you could not take the statistics upon wholesale and retail prices now, as compared with 1913; the margin between the wholesale and retail prices has not dropped in the same radio as the wholesale price has dropped.

Representative MILLS. I know, but you will find that, except in abnormal periods, the retail prices will follow the wholesale prices, only they will lag somewhat behind. In normal times I do not know what that period would be; perhaps a month or two.

Representative TEN EYCK. I wonder how the efficiency of the housewife in her profession to-day compares with the efficiency of the housewife 20 years ago?

Mrs. BODEN. It is not at all the same. You can not contrast them. Let us take a longer time than that; let us take our grandmother's times. They did everything in their own homes. They cured their meat——

Representative TEN EYCK. But they had to purchase it.

Mrs. BODEN. They thought $2 a week to their cook was a large wage, and they supplied her with all her clothes, and pensioned her off when she got too old to work. Now, what we have come to in the city is this—the young women of the city are almost without exception self-supporting girls. They are all in industry; they have no chance to secure any education as to home making. They marry and go to housekeeping, and they do not know one blessed thing about it. They go out, because they have been used to going out, and they rush out to the movies, they rush out shopping, and they only have time to stop at the delicatessen shop at the corner and buy something, and they rush home and put it on the table for dinner, and that is all they know about food distribution and consumption. The Department of Agriculture will furnish them bulletins on housekeeping, but they do not know enough to ask for them. Once in a while I see in the Sunday paper a very glowing account of what the Department of Agriculture will do for the women of the country if they ask for it, but these bulletins should be in every home or given out with the purchase of food.

Representative SUMNERS. The Department of Agriculture can not do the outside work and the inside work, too.

Mrs. BODEN. I know it, but I am begging you all to advertise. I am strong for publicity.

Representative SUMNERS. Take the present situation: You can read in the morning paper, as Mr. Mills suggested a moment ago, with reference to the wholesale prices. Then you go down to the store and see what the retail prices are. What are you going to do about it? What good is it going to do you to have from a governmental agency knowledge of wholesale prices that anybody can acquire by reading the paper?

Mrs. BODEN. It is not going to do one person a bit of good, but if that one person is multiplied by a thousand——

Representative MILLS. Well, she goes to her grocery, and she says, "This is not a fair price." He says, "I am sorry, but that is the price I have to charge to live." She goes into the next grocery and finds the same prices. She may go two or three blocks; but by the time she has gone two or three blocks and finds they are all selling at the same price, she says, "Well, that is interesting, but it does not get me anywhere."

Mrs. BODEN. More than one woman reads the newspaper. Suppose a thousand women in West Philadelphia go to their stores and say, "How dare you charge me 25 cents a head for this lettuce when you are only paying 5 cents for it?" They say, "Well, we can not sell it for any less." Then another thousand women come and say the same thing. The retail dealers say, "We are sorry, but we can not sell it for any less." In the same day two or three hundred more women come in, and then the dealers say, "Well, we will see what we can do about it."

Representative MILLS. If they have somewhere else to go. But if they have not—if that is the retail price for that day, generally speaking—they are helpless. If it is away above a proper margin of profit then the fellow around the corner is going to cut the price, because I do not know any keener competition than among the small retailers.

Mrs. BODEN. Don't you know what would happen? All those women who had read that bulletin would say, "We do not want any lettuce to-day; we really do not care for it, and we won't buy it until it comes to a decent price.

Representative MILLS. I admit if you have a buyers' strike on any article the price will come down.

Mrs. BODEN. We do not want that. We do not want to put anything like that before the public, but we want them educated to intelligent buying.

Representative MILLS. Well, I think you are right. I think you ought to educate people to intelligent buying, but it is a very long, slow process.

Mrs. BODEN. That would have been true five years ago, but since then our women have been trained to organized effort and to the use and conservation of food. I feel sure that the women in every State would respond to a central campaign to eliminate as far as possible the middleman and bring the consuming housewife in touch with the producer of perishable food. In Philadelphia we have an or-

ganization of wealthy society women, the Emergency Aid. They are vitally interested in food prices. The club women are trained to study economic values. The vast majority of housewives, those in our city, who live in rows of two-story red brick houses, and who belong to no organization, can be reached and influenced by newspaper publicity and by an educational campaign which could be put on in the motion-picture houses, authorized by the Department of Agriculture in cooperation with the State marketing bureaus, the State granges, and the home-extension department of our State colleges.

I may add, by way of example. that the coal dealers in Philadelphia are putting on a fine moving picture depicting all the processes by which coal is brought from the mine to your front cellar window.

Representative MILLS. Have you ever been able to see in Philadelphia that there was very great interest in the establishment of a free marketing system?

Mrs. BODEN. We have held meetings, we have been to the mayor's office——

Representative MILLS. But have you got anywhere?

Mrs. BODEN. No; we have not.

Representative MILLS. Exactly; and why is that? Because you can not get the general public interested. The same is true in New York City. The situation is perfectly well recognized, but the public is absolutely indifferent.

Mrs. BODEN. You know what the public is in Philadelphia?

Representative MILLS. No; but I know the public in New York is.

Mrs. BODEN. But we do not call them the public; we call it the Pennsylvania Railroad in Philadelphia.

Representative MILLS. Well, in New York I think all the railroads would be very glad if you gave them free terminal facilities.

Mrs. BODEN. But you have wonderful markets in New York. You are noted for your markets.

Representative MILLS. I do not know where they are.

Mrs. BODEN. You have eight times as many people in New York as we have in Philadelphia.

Representative MILLS. Yes; and we have not got a single real terminal market.

Mrs. BODEN. But New York is so big you are not up against it the way we are.

Representative MILLS. I do not know why. The people in the Bronx have to come down and buy at the Washington Market and carry all their stuff up to The Bronx. There is no real distributing point in The Bronx. It is all sold to the retailers. It is a bad situation, and yet we can not get the people interested.

Mrs. BODEN. What we want most of all in Philadelphia is to have a survey made. We want a market commission appointed, preferably from the outside, absolutely free from political ties or special interests control. We want to eliminate the middleman as far as possible and deal direct with the producer. We want an efficient plan whereby we can get better food at lower prices. When such a plan is devised and meets the approval of such men as Dr. King, we women are ready to get behind it and make it a political issue if needs be for the good of the city. But we must start with a survey.

Representative MILLS. But you know what they will find.

Mrs. BODEN. We want them to come out in print and tell us what they find, and then tell us just what we need. Then it is up to us to put it through. But we have not been able to get that survey through. There was $10,000 appropriated for the survey. We went to the mayor and we said, "You know, we had $10,000 appropriated by the last administration for a market survey, and we would like to have that money put to that use." The mayor said, "Your money has been spent long ago, and I do not know where I could turn to get it again." So there is our survey, but still we want it. We thought perhaps the commission could make some recommendation about that. I do not see why they should not have surveys made in different cities, and then it would not hurt anybody's feelings. Don't you think so?

The CHAIRMAN. The Department of Agriculture has made surveys, and various organizations have made surveys. The trouble is, there has nothing ever come of the survey.

Mrs. BODEN. I can not answer for any other place but Philadelphia, but we would like very much to have one.

The CHAIRMAN. If there is nothing further, Mrs. Boden, we are very much obliged to you.

Mrs. BODEN. I am very much obliged to you, Mr. Chairman, for letting me have this opportunity to appear here.

The CHAIRMAN. Judge Cowan, are you ready to enlighten the committee now?

Mr. COWAN. I am ready, but I do not know whether I am able to.

The CHAIRMAN. You may give your full name and the organization you represent to the reporter.

STATEMENT OF MR. S. H. COWAN, ATTORNEY FOR THE AMERICAN NATIONAL LIVE STOCK ASSOCIATION, AND THE NATIONAL LIVE-STOCK SHIPPERS' LEAGUE, FORT WORTH, TEX.

Mr. COWAN. My name is S. H. Cowan; I reside at Forth Worth, Tex.; I am appearing here as attorney for the American Live Stock Association and its constituent associations and other organizations—the National Live Stock Shippers' League. I am a citizen and farmer of the State of Texas; a Democrat who voted the Republican ticket; white; 62 years old.

Gentlemen of the commission I hesitated to come here before the commission because the breadth of your investigation is such that there is hardly anything you will not hear. There is probably very little of it you can consider. There is no proposition pending to remedy such conditions as are alleged to exist or which you find to exist. There is nothing to speak to, except to argue something. I have done that so often and before so many committees of Congress that I guess I have achieved about all the pleasure and reputation that I can get out of that sort of performance.

I have had in mind to endeavor to so state the situation about which I wish to speak that you would understand it as it is. I do not mean by that expression that this commission is not, to its own belief, fully cognizant of the situation pertaining to live stock, of which I most particularly speak, and that it likewise has a vast fund of information upon the subject.

I take it that many of you are personally acquainted with the business of agriculture, which also includes live stock in our western country, using the term agriculture as a generic term. And the two are inseparable, and the two are the basis and foundation of all prosperity, of the existence of civilization, even. It furnishes meat and bread for this country and for the world, and when we need them the best soldiers. And from my State more Democrats than anywhere on earth; I am not bragging about that, either.

I have been to Washington many times in representing the Texas Cattle Association; later the American Live Stock Association in about all of the measures that have been up for the regulation of rates, transportation, and service, and in many other matters; have appeared in the Department of Justice, and to some extent the Interior Department and its various services. And at my advanced age you can readily understand that I am pretty well acquainted throughout the West.

I speak of the western district as being that territory lying west of Chicago and the Mississippi River, but including the State of Illinois and the corn belt, that being the district, so far as transportation is concerned, that is used for statistical purposes by the Interstate Commerce Commission, called the western district.

The interests of the people throughout that whole territory is each inseparably wrapped up in the other; that interest applies just as well to banking and merchandising as it does to anything else; as it did apply in the saloon in the days preceding the great drought; it now applies to prohibition as well, and moonshine and everything else interchangeably interwoven together.

The conditions there are not describable by any particular language; the poverty of language forbids the use of language in set form or phrase that will describe the condition in any particular community. A few recitals would suffice. They have been made to you in many cases, no doubt, though I do not recall having seen that anyone has appeared particularly with respect to the live-stock situation out there, although I assume a number of men have appeared who have gone into the subject. Am I correct about that? You have had witnesses here, I suppose, before the commission, or persons who made statements to that effect. The word "poverty" does not exactly strike the right chord. The word "bankrupt" does not do it, because the energy of the people there is so great that you can not bankrupt them if you give them a chance. The fertility of the soil, and the abundance of honest production is such that if they have an opportunity they can not be bankrupted. They will come out. They will scratch out, and have done it many times in local communities. Now it applies to the entire country.

The enormous expense laid is a burden upon the product of their business, they being so remote from the places of consumption of their product that they can not overcome it, because they can not control it. After they have disposed of their products, they have nothing left, and if they have nothing left to trade upon, they can not continue in business. The cost of production of live stock has, in many instances, been greater than the actual receipts at the market. In many more instances it has been greater than the receipts less the freight and expense of getting it to the market. The general con-

dition to-day is that the live-stock interests of the West, including the corn belt, can not make a farthing by the very best that they can possibly do, to pay any return whatsoever upon their investment in their lands. And for the most part, the farmer and the stockman who employs men to carry on his business has nothing left after he gets through paying the interest on the money he has to borrow and his taxes, that would not allow for him any compensation other than the fact that he makes a living at the place where he and his family reside.

Such a condition has never existed before. It is universal, and the people are calling as loud as they can speak, at least, upon Congress for relief, and the question here, of course, ought to be: "What relief can we give? What is within the domain of the possibilities of our cutting down the expenses?" We can not increase prices. Then, the question is: "What can we do with respect to cutting down expenses? And what can we do to keep you going and give you an opportunity to use your energy—a vast army of millions of people, able, ready, and willing and with the opportunities at their doors to continue in business to produce, to make, and to create the primary wealth of the country?"

Representative MILLS. Let me ask you a question now: Is not the crux of your present situation—I am not talking of future production—the fact that your farmer has a commodity produced at a very high price which he has not yet disposed of?

Mr. COWAN. No, sir; not altogether. He has that, yes, so far as he has retained it, that is true; and this year's crop is in considerable measure in that way, although not so much as it was in the preceding year.

Representative MILLS. So far as your stockmen are concerned, is that true to a great extent?

Mr. COWAN. There are almost innumerable instances, each of which is differentiated from the other. Some illustrations would answer your question better. A man who is engaged in buying of yearling steers in the trading country, and shipping them to Kansas or Colorado, or some other place, speculates upon them, and he paid a price for them when he bought them; if he bought them a year ago he paid a price which he could not realize now. And in that sense he has got a commodity on his hands which he can not market presently, at least, to pay him any money, if he gets his money back that he has expended in the process.

Representative MILLS. Now, let us deal with that fellow before we pass on to the next man. Is there anything that you can do for that man?

Mr. COWAN. Yes, sir.

Representative MILLS. What is that?

Mr. COWAN. Reduce his freight rate so that he will not have to pay 75 per cent more than he had to pay previous to the war when the same prices prevailed, about, as they do now.

Representative MILLS. That, of course, will reduce his loss.

Mr. COWAN. You asked me what I could do for him. That is what I could do, to try to save him loss.

Representative MILLS. Is there anything that will save him this product—speaking of this particular product—even at a loss?

Mr. COWAN. Yes; furnish him the money so that he can hold hi cattle, and thus prevent his flooding the market with immatur cattle; help him to hold his cattle, and thus save himself and every body else from putting these young, immature cattle on the market If that is corrected, he will grow out of that condition, and he wil buy other cattle, and he will continue to grow out of it. If he ha the credit, he can do it. Credit lies at the foundation of any pos sibility of increasing the prices, as we view it.

Representative SUMNERS. Judge Cowan, this difficulty is not repre sented entirely by the decrease in the price of livestock that is read for market, but, as you have indicated, that difficulty is accentuate by reason of the fact that young stuff and cheap stuff and immatur stuff is forced onto the market in competition with whatever stuff i ready for the market.

Mr. COWAN. Exactly; that is, the stuff that should not be marketed It should be held until it is mature and ready for the market. I has always had its price fixed by the men who wanted to continu to produce it so as ultimately to produce a marketable commodity.

Representative SUMNERS. But you have a situation that not onl the man who is producing for the market, when he gets to market is confronted with a reduction in price, but the herds are bein destroyed by the condition that exists. They are being force on the market; and that, in turn, is destroying the man who ha something ready to sell.

Mr. COWAN. That is, to a certain extent, true. Many of them wil of course, continue in business; most of them will continue: thos most favorably circumstanced. Those not so favorably circum stanced, under the conditions, will go out of business.

Now, gentlemen, let me pause for a moment and state that it wa not my intention to go into that subject so much, because Mr. Merce will go into it. And at this point I want to say that Mr. Williams assisant secretary of the Texas and Southwestern Cattle Raisers Association, of Fort Worth, Tex., is here and has some informatio that he will likewise desire to present for your consideration. Mr Mercer is also here and would like to be heard; and Mr. William would like to present his matters after Mr. Mercer is through.

It was my intention to go into some of the other subjects; that i to say, the matter of transportation and the things that Congress as it seems to us, must give consideration to; some of the thing that Congress must take action concerning, because they will no right themselves. We are to-day, as I say, selling live stock on th market and on the ranch at about prewar prices. We will not quibbl about the exact amount. I am speaking of cattle particularly, be cause that is the backbone of the business that I care to speak about I am not so familiar with sheep and hogs, but it was the case wit sheep, and also it was the case with hogs until the recent rise in the market, beginning some four weeks ago.

Cattle move probably an average of three times before they reach the block in the ordinary course of business. Some will move four or five times. That is not open to controversy, and the general opinion is, taking the whole situation, that they will move an average of three times. For example, cattle bred in Texas may move to the north Panhandle—I will take a good illustration that will illustrate

it, and then you can take that and consider it. The Matador Cattle Co., that has a large ranch in Motley County and down in that part of Texas, purely a breeding range, raises a large number of cattle on that range. And they have another range of about 217,000 acres some 200 miles or more up into the Panhandle, near the line of Colorado, in the northwestern corner of Texas. They will move young cattle from the lower ranch up to the upper ranch, where they will keep them until they are about 2 years old. Then they have a ranch in Montana, and they will send a lot of those cattle up to graze up there on their ranch in Montana; and they also did have a ranch in Canada, some years ago, over the line, and did move cattle there. They also have a ranch in South Dakota, or did have one there for many years; there was an interval when they did not. And they move cattle from this lower Texas ranch up by the different steps, as you see, to South Dakota and Montana and Canada—generally to South Dakota, and also move some to Montana. When those cattle are shipped out from South Dakota or Montana they will go most uniformly to the Chicago market.

Now, at the Chicago market those cattle, although they are grass-fat cattle—they are well-bred Hereford cattle—a brand that is well known, and they are desirable cattle to finish on corn; so that they will meet a competitive market at Chicago, in those who desire to buy cattle to feed, and some of them may be sold and may go out again to be finished on corn. Now, there are many shipments from Montana where the cattle are bought and carried out into the corn belt, and elsewhere, where they are fattened. So that the animal, from the time it is bred and is a calf up to the time that it reaches the block may have been taken on four or five journeys on the railroad. It also involves a matter of feed. Mr. Campbell, of Wichita, Kans., feeds cattle at Lajunta, and he ships cottonseed meal from Oklahoma and Texas to feed his cattle. They will ship corn from Kansas or Iowa to be fed to those cattle. They use sugar beet pulp, if that is what they call it, and alfalfa meal, all of which involves railroad rates. And all this material that is shipped in the form of feed will eventully be marketed in the form of beef. That is a matter that is going on all the time. These cattle are shipped from Texas to South Dakota and to Canada, and to Montana, and are fattened, and are shipped to Chicago, and then sometimes from Chicago out to be finished on corn, so that you can see that the matter of transportation is one of the most important matters to the cattle raiser.

Now, these railroads are built up by the country that was developed out there by the cattle business and farming business, and they even themselves bought stock and put into that country to help develop the country. And after the country had settled up, and the reclamation service was established, they put in alfalfa, and alfalfa is a great product in that country; it is a great product aside from the irrigation districts, even in the State of Kansas. It is very extensively grown there and in Nebraska, and elsewhere. Proper uses were made of the products and the people knew what they were doing, and the business was going on; there was a complexity of business, and the people generally and the banks and the railroads and everybody else were supported by that enormous

business. For 25 years, or 30 years, or 40 years, while this country was developing, people knew about what they could do; they knew something about what the rates were costing, and then what margin they would have to have to take care of this transportation. We were going about upon the maximum at the time the Government took over the railroads. And those maximum rates were those that were made by the Interstate Commerce Commission, or were indorsed by the Interstate Commerce Commission, all made to conform to competitive rates moving in similar territory, according to the schedules that had been passed upon by the commission, and all of which had been tried out in great detail before the commission and had received the consideration of the best talent of the country, and the best judgment of the commission; and many of them had been fought to the courts and sustained, as, for example, the rates in the cattle raiser's case. So that there was substantially a standard of rates throughout that country. Business was going upon that basis; all sorts of business.

I say that was a standard of rates, considered to be reasonable, and about a certain general price was being paid for live stock for some years, fluctuating a few cents a pound, according to circumstances. The country was prosperous, the railroads were prosperous, and business was growing; everybody's business was growing. If we could return to such a condition now the same thing must happen again, because the same causes that produced the condition before are there now to produce it again. But the difficulty that stands in the way of returning to such conditions to-day is twofold; one is the railroads feel that they can not put the rates down so as to move the traffic and start up the business of the country without bankruptcy; and the other is that they are not willing to do it, having once seen these high rates written upon the paper.

As it is to-day, and was disclosed when we were trying a recent case, there were 1,700 hogs that were hauled into the market at St. Joseph in one day on Ford trailers; half of the sheep that are shipped to Omaha in a 50-mile radius are moved to market on trucks and trailers. People will not use the railroads; cattle, wherever it is possible, are driven between pastures and ranges.

They put such high rates on hay and alfalfa as to absolutely tie it up where it is raised and close up the alfalfa mills on their lines, and in Idaho there are a million tons of alfalfa hay going to waste simply because the people can not afford to move it on the railroads to the available markets at the price.

There was an instance of one man in Nevada who shipped a carload of horses to Kansas City, and after he had shipped them and sold them and paid the freight he was in debt $124. And then they had to send them to the zoo and kill them for meat for the lions, because there was no other use for them.

You can not ship cows that would make good canners because the rates are so high that the cattle will not pay the rate, and the only valuable by-product there was, or the most valuable by-product was the hides, and now Congress in its great wisdom has put hides upon the free list, so that hides are not worth anything. And I say, "in its great wisdom" with several exclamation points. As a Democrat I voted for the protective tariff, and yet Congress in its great wisdom put hides on the free list.

I was told, digressing, that some of the Members of Congress had concluded that that was a way to hit the packers, to put hides on the free list. The only people who can import them in great quantities and have the entire meat supply in their control, and yet they put hides on the free list to hit the packers. I think some of our Texas Congressmen, even, voted that way. The Lord forbid.

These things that are staring the common people now in the face and are bankrupting the people are the things they want to bring before this committee. What I have stated in relation to the transportation is the thing that pertains throughout the country. Why, they don't even ship the tags from the wool now, about 20 per cent on a wool clip from the sheep. Talk about conservation of natural resources about Washington here. I don't know who this talk is by, but I suppose some professors. They have to throw away the tags they shear from the sheep because they will not pay the freight.

A man that is in the lumber business and worth some millions of dollars has a large ranch in Texas, and he told me coming up to Washington to see about something—I don't know what—a tariff on lumber, I reckon—I don't know—this man had killed a steer on his ranch in Texas, because that is about the cheapest meat they can get—the steer dressed 700 pounds, and you gentlemen who know about those things know that it must have been a good-sized steer. And along with other hides they shipped this hide. As I say, it must have been a large steer that dressed 700 pounds; it must have weighed—I don't know—I suppose 1,250 or 1,300 pounds. And what do you think he got back as an emolument on that big steer hide? The enormous sum of 56 cents from the hide of that big steer. And the hides from that country, covering a large per cent of the by-product of the cattle, can not be sold, because they will not stand the freight to be shipped.

Representative SUMNERS. What did he get for the hide?

Mr. COWAN. Fifty-six cents, and his name is Jim West, of Houston, whom you know.

Representative SUMNERS. If he had had a tariff on that hide, it would have paid him to raise that animal, do you think?

Mr. COWAN. If there was a tariff on hides, he could have got more for it, and hides would be worth more generally. The Democrats told me when I voted for Hancock that they were for a revenue tariff. But afterwards they were not for a revenue tariff. That is the reason I am for a tariff. They treated me like the Baptist Church treats a member; they don't turn a member out of the church; they withdraw from him, and I guess that is what the Democratic Party did to me.

This is just sound common sense; we can't afford to put our products in competition with the cheapest products in the world while we pay union labor $5 or $6 a day for eight hours' work, and pay another man to watch him. That is a thing I will reach in a minute.

Representative TEN EYCK. Mr. Cowan, can you tell how old those cattle were at the different shipments you spoke of?

Mr. COWAN. Beef steers are often shipped at 2 years old. Well-matured, fine-finished cattle are older; some are 5 or 6 years old. Old cows, that have quit breeding, of course, they ship when they

get fat. They ship them when they can; a man on a ranch knows something about his business, and he will ship them for what he can get, often. But now, after the hide is of no value, he can not afford to ship them; because the hide was the most valuable by-product.

Representative TEN EYCK. Do they do much business in cattle at 20 months?

Mr. COWAN. You mean to fatten?

Representative TEN EYCK. Yes.

Mr. COWAN. Oh, yes; it depends upon a man's business and the condition of his ranch. If he has a crowded condition on his ranch he will get rid of them and they will go on grass. Not all the cattle that are shipped as feeders go on feed; some of them go on grass. At Kansas City they have shipped out as high as 20 to 35 per cent of all the cattle sold there to go on grass, and at Fort Worth it is as high as 40 per cent, and at Chicago 20 to 30 per cent at times dependent on conditions.

Representative TEN EYCK. Somewhere I have heard or read that a great deal of business was done in taking cattle off the range, and keeping them for six months to fatten on grain.

Mr. COWAN. There is absolutely no custom about that. Some individual may conduct his business that way, but there is no custom about that.

Representative TEN EYCK. Why I ask that is this: There has been a compilation of costs, in five different States in the Union that represented quite a number of thousands of cattle, and they appeared to be about the age that these cattle were purchased, and about the length of time, six months, for fattening, some on alfalfa and some on grain, and the average weight of those cattle ran somewhere in the neighborhood of a half ton, or a little more.

Mr. COWEN. That would be about right, but I suppose they had to take some uniform standard on which the business is based. Mr. Mercer is a cattleman, and he will tell you all about that.

Representative TEN EYCK. I understood you to say five or six years——

Mr. COWAN (interposing). They don't keep them that long, except by accident. Oftentimes steers will be marketed at 5 years old, but the Kansas steers will come in, usually, in four years. Mr. Mercer can tell you all about that, he was raised with cattle, as he appears.

Representative TEN EYCK. Can you tell us about what the cost is of raising these cattle for market, per hundred?

Mr. COWAN. Per hundred?

Representative TEN EYCK. Have you any idea about that?

Mr. COWAN. I would not attempt to answer that question, because I would take too long a time to go into the details of the matter. It is estimated, of course, according to circumstances and conditions.

Representative TEN EYCK. Could you estimate that?

Mr. COWAN. There is no such thing as raising a particular steer until he gets to be marketable. There are cases, of course, where circumstances and conditions will arise, but then the other fellow will not have those conditions to put up with. It depends on such a variety of conditions. Mr. Mercer can explain that to you, because he has fattened cattle all his life, and run with them. I would rather he would do that, because I do not want to cover his ground.

But it costs more than the 5 cents a pound that they do get for grass cattle in Texas to raise a steer under the cheapest conditions.

Representative TEN EYCK. How old is that steer that you are talking of?

Mr. COWAN. A little over 4 years old, and pretty good grass cattle.

Representative TEN EYCK. You do not think it costs more than $5 a hundred to raise a steer to 3 years old?

Mr. COWAN. Oh, yes, it will; if you estimate cost as other people estimate cost.

Representative TEN EYCK. That is what I am getting at; you say it would not cost over 5 cents?

Mr. COWEN. It depends on what you mean.

Representative TEN EYCK. Everything.

Mr. COWAN. If you mean everything; no 3-year-old steer could be raised for 5 cents.

Representative TEN EYCK. Would it cost 10 cents?

Mr. COWAN. No, sir; not under ordinary circumstances.

Representative TEN EYCK. You don't think it would cost 10 cents to raise a steer to 26 months old?

Mr. COWAN. A steer, if you mean a steer fattened for beef, yes; probably more than that; but if you are talking about a grass-fat steer, it will not. But he does not bring as much on the market. Of course, there is a great detail in the matter of handling live stock, and what it would cost to produce live stock, and the sort you are marketing.

Representative TEN EYCK. Of course, we have to know the cost before we know how much the fellow lost at the time he sold.

Mr. COWAN. If you let him tell it, he will be apt to tell how much he lost. But you can't figure how much it cost the fellow in losses. It has been enormous. There is no question about that.

Now, coming to the question of transportation, I want to point out to you gentlemen and I hope this commission will make some recommendations on this all-important subject. I say all important, because it goes to the whole question here. Wherever it cost a dollar for freight for a period of 25 years previous to the war and for transportation it costs now $1.75, as near as I can estimate it, and I can estimate it very closely. We have had two advances, one of 25 per cent and another of 35 per cent, and another advance in the charges for feeding and bedding the cars and disinfecting the cars, and so on. I haven't got the time to go into detail in that.

Representative TEN EYCK. That is the cost of the four shipments?

Mr. COWAN. Yes. And the producer has paid the bill; where he paid a dollar before, he now will pay $1.75.

Representative TEN EYCK. Per hundred?

Mr. COWAN. No; no matter whether it is per hundred or how. It was a dollar before, and it is $1.75 now; in other words, it is an increase of 75 per cent.

Representative TEN EYCK. Does that cover the entire turnover, or the four tournovers on the cattle?

Mr. COWAN. That applies to the transportation. If you ship a trainload of cattle from Amarillo to Wyoming, and it cost $2,000 previously, it will now cost you an increase of about 75 per cent; and if

you could ship a trainload of cattle from Amarillo to Kansas for $1,000 before, now it is about a 75 per cent increase. And then when the producer moves these cattle to market, as he will later, it will cost him another 75 per cent more. In other words, the entire transportation costs have increased 75 per cent.

Now, let us see how that can be remedied. By the act of Congress, section 15 (a) of the transportation act, there is a provision for the Interstate Commerce Commission in the first place to value the railroads for the purpose of rate making and to so adjust the rates as to give 5½ per cent to the roads on the aggregate of the roads in a certain group.

In our country the group extends from the Mississippi to the Rocky Mountain region and from Canada to the Gulf and the Rio Grande. That is the largest and most important group, because of the vast territory and the vast proportion of cattle, hogs, and other live stock there is in that territory. That is called the western group. They increased the rates 35 per cent in that group to accomplish that purpose. The Rocky Mountain and the Pacific group lies west of the Rocky Mountains, speaking roughly, and they increased the rates 25 per cent there. The territory east of the Mississippi River, they increased the rates 40 per cent. The Railroad Administration had increased those rates 25 per cent previously. That is for the purpose of carrying out an arbitrary rule made for the Interstate Commerce Commission to follow.

Now, they fixed a value of $60,000 a mile in the Western group on 132,000 miles of railroads, first class. If you were to repeal every law on the statute books; every regulating rule, and all the statutes and turn the railroads loose and say, gentlemen, make all you can, they can't make 3 per cent on $60,000 a mile, because the business of this country can not stand it. The hay crop was nearly lost—it is lost; almost two crops of hay have been cut in Kansas, and can not be moved; but it had to be cut, and they can not afford to pay the freight to ship it. I am a profiteer; I have a farm which almost adjoins the city limits of Fort Worth. And I sell baled hay, and short weight at that—it is supposed to have 50 pounds when it is baled, but by the time the sun shines on it a little while it is about 47 pounds. I can sell that hay at a big price, because they can't ship in the hay from Oklahoma that ought to come in because the freight alone is about $10.50 a ton. Why can I sell my hay at a higher price? Because the people do not have access to the market for hay, because the hay men can not ship their hay. The rates are too high, and they can not afford to ship it. That is the result of making up these figures, and that is what it means.

Now, that law ought to be repealed, whether the Interstate Commerce Commission wants it repealed or not, because they can not exercise their judgment as to what a rate ought to be in the face of such a rule as that.

Representative Ten Eyck. Can you raise alfalfa on your land?

Mr. Cowan. No; it does not do so well on the black land there in Texas. There are a few places where it will grow, but I guess it is too hot. It will grow some on the limestone land, but it will not do as well as it does in the lighter soils of Kansas and farther north.

Representative TEN EYCK. It is supposed to grow well on limestone land.

Mr. COWAN. It won't do it with us. Sometimes you get a crop started, but it gets spotted in a year or two, and it disappears in about the third year. And then you would not want to grow it anyhow, because you can grow other feedstuffs so much better. But it does grow in Texas where they irrigate, and there are places in Texas where they do not irrigate that they grow it. But not to any considerable extent. It does not do so well, and it is not a considerable crop in Texas.

Now, going again to what ought to be done. The Interstate Commerce Commission fixed this valuation without rhyme or reason.

Now, I am not challenging the intelligence nor the honesty of the commission, but I do challenge their judgment when they fix $60,000 per mile as the value. And they do not fix it by the mile; it is fixed in a lump sum of $8,100,000,000 for the western district. They took a number of the roads, the lines north of the Illinois River, and took them out of the 35 per cent group, although they never changed the valuation figures in either group at all. Neither did they segregate as between the Mountain-Pacific group and the Western group, as to how much value there was in the one or the other. But taking the entire district, they said, If you add 25 per cent here and 35 per cent here to the rates here they can operate, and they will make so much money; but they did not do it, because the commission could not make the traffic. The first item, I believe, in the receipt for cooking a rabbit is to catch the rabbit.

The result was that they held every State in the West—and I believe every State in the Union—held every State up to that rule, and declared that if you vary one jot or tittle from that rule, that is discrimination, and we have jurisdiction over discrimination, and we will, therefore, require the railroads to put in a certain advance in percentage on the State rates, the same as we do on the interstate rates. And that, notwithstanding the fact that the first section of the act says that it shall not apply to transportation wholly within a State. But they said that because it would show discrimination, it was to apply. It was like the doctor who said, "I am not much of a doctor for this case, but if you have anything that will throw this man into fits, I am hell on fits."

Now, gentlemen, we have to live under a Government that, instead of protecting the people, is punishing the people. And it has taken away from every Western State the right to fix rates within the State on sand and gravel that moves within the State for the purpose of helping to make the public roads. And now they have to close down their sand and gravel beds, because they can not afford to move it. And now Mr. Kruttschnitt says that the public roads are competing with the railroads, because the people are carrying their goods on trucks alongside of the railroads. I heard him say it. And these ships that carry food and product through the Panama Canal, gentlemen, the shippers are making contracts on the Pacific coast with these ships to carry the goods for them through the Panama Canal. And let me tell you that once that business is established there that the railroads will not get it back again.

That is what is happening in this whole vast area of this western country, where these vast resources of the wealth of the people are

that would produce to feed the people; and where the Government has spent a hundred or two hundred million dollars in the development of the Reclamation Service, and where the Government owns land. The conditions have put the people where they can not make their living upon that land, and the money is wasted. It has gone to nothing.

They insist on keeping these rates up so high that we will not move the traffic, and the country must go down, therefore, instead of up. And they must go down with it. But they can not see it. They are like Paul, who once thought he was truly serving the Lord when he was persecuting the Christians; if the scales could only fall from the eyes of Israel, I think they could see.

Representative MILLS. How do you account for the fact that traffic moved for the first three months after these rates went into effect?

Mr. COWAN. Well, I haven't exactly admitted it was a fact. I haven't the facts before me as to how the traffic did move. But I can say this, that when we were selling hogs at 16 cents; when we were selling cattle at 17 and 18 cents; when we were selling cotton at 30 cents a pound; when we were selling corn for $1.75 a bushel it was one thing to move traffic. It is another and a different thing when these prices are reduced to prewar prices. And as prices went down and the war business faded away, the traffic ceased. Of course, there is a direct relation between the cost of transporting the thing and the value that you get out of it at the other end of the line, so that to-day you can not ship brick long distances.

Mr. Hoover said that it will transpose the commercial conditions in this country. He was exactly correct. They will use substitutes for the real thing; they will use lumber that they can get nearby; they will use brick that can be made almost anywhere that they establish brickyards. I will give you an illustration of that. When the rates were raised to Texas points from St. Louis 5 cents per hundred—and it was fought out before the Interstate Commerce Commission—one of the parties that owned a brickyard near Carondelet near St. Louis stated that he had shipped 500 cars a year over the Iron Mountain road. After this rate went into effect, he could not ship any at all. Just about that time they established a brickyard at Texarkana, and the people used the brick, and the man who owned the brickyard at Carondelet lost out, and the Iron Mountain is out of the business, and St. Louis gets nothing out of it.

We have passed through a history of prosperity unexampled, which was shared by the railroads and everybody else. Now, we can return to that. The railroads would have more business than they could handle if the Congress would put the rates back to where they were when the Government took them over.

Representative TEN EYCK. But what would happen if the railroads could not do it and if they crumpled and went out of business?

Mr. COWAN. That is exactly what is going to happen.

Representative TEN EYCK. What would happen in that case?

Mr. COWAN. You might as well ask me where I will go when I die. I don't know where I am going. In that case the Government would have to afford transportation.

Representative TEN EYCK. Would not the same thing happen as would happen to the farmer if he can not earn enough to pay him to run his farm?

Mr. COWAN. He would certainly pass out of the business. You have got to have a policy to run these roads, and you can not repeal the law of supply and demand. I think what Congress ought to do—this, gentlemen, and this is the result of a great deal of thought upon the subject—it may be poor thought, but it is my thought, after having had, I think about as complete knowledge of the subject as any of my fellows—I think Congress ought to provide for a method of reducing these rates to the prewar period; and I think Congress must and will—of course, everybody will jump on me for saying this, but if you can see any other way out of it let somebody name it; he has not named it yet. There isn't a man in this Capitol who has named it yet. The Government will have to provide assistance to the railroads, so that it will help to avoid what you spoke of, Mr. Ten Eyck, the crumbling of the roads in the meantime. It was an unpopular thing to do; that is true. Most men hate to say a thing that is unpopular. But it is the man who will stand in the face of the howling mob that will bring law and order at last. So that you will have to provide assistance, and lots of assistance, to the railroads in order that they may survive and function while they are reaching the point of going back to these prewar rates, where, by the judgment and experience of all men in this country, we were on a fairly prosperous basis, and then we will have a reasonable and fair condition of rates.

You asked me how we can do it. Of course, you have not asked me; I am putting that question to myself. But if you do ask me, I must answer you that I do not believe there is a man in Congress who will introduce a bill that provides for giving the railroads—affording to them the necessary assistance to do that. And that assistance consists of this: To guarantee the payment of the fixed charges. That is to say, the difference between what they earn to pay the fixed charges and what the charges actually are. To fix that as a loan against the railroads—an additional loan, to be repaid on the amortization plan over a period of years, after and only after the railroads shall have earned more than a certain per cent in their business. And coupled with that the provision that in consideration of this assistance the rates shall be reduced to the tariffs in effect when the roads were taken over by the Government and subject to regulation by the Interstate Commerce Commission, the same as they then were. Now, you can study over it and you can try to find somebody that will iron this out otherwise, and you will not find him. You can do that and afford these railroads the opportunity of keeping out of the hands of receivers; certainly, as they are going now, if they go ahead on the same lines, many will go into the hands of receivers.

I have before me, and will file to be printed, if you will permit, a table of earnings and expenses of roads by regions for five months. [Exhibit A, inserted at end of testimony.]

I have recently been over the statements of the Interstate Commerce Commission; I have been all through them recently as to the freight, as to the earnings, and so on, for the western district; and, taking the individual rates—and that is the only way you can consider them, the individual statements—and taking those statements, there are very few roads that are operated on a basis that is paying upon the valuation which they carry as to the amount invested

in property more than 3 per cent, and upon the basis of their capitalization, which is considerably less in many instances, more than 4 per cent; and I believe very few are operating on a basis to pay their interest charges. Many are operating in the red; and in the State of Wisconsin, for example, I saw in the statement of the tax commission there that the St. Paul and Northwestern were both operating in the red. I forget the figures, but it runs in my mind one of them something more than $3,000,000 and one more than $4,000,000. And they must continue that on the present rates. I have just been up there fishing, as my color would indicate. They have rates up there on lumber, but they can not move it; they have logs at the tracks, but it costs $7.50 a thousand to move them to the first sawmill and they can not afford to move them. And their potatoes they were told to keep, as they would be higher, but they were never higher, and they froze in the ground. They are clearing some land up there, and it will be a good farming country, and it is a great dairy country. But what can they do? There is no business. And the bad showing of the Chicago & North Western, which has always made such a good showing, is that in the State of Wisconsin, where they have the iron mines, they can not ship, because of the rates, and the road makes a bad showing. And they run their passenger trains to-day, with the high passenger fares, I expect, at a loss.

And so all along the line. The North Western can not pull out on the traffic out of Iowa and North and South Dakota and Minnesota. They will have to get relief somewhere. The Milwaukee & St. Paul, of course, went through an administration of high financing conceived by the idea of building a railroad where none was needed—building a railroad where it can not, in many years, develop enough traffic to support the road. How can it be expected? The country can not support it; it can not produce sufficiently for years to support it.

Now, I say that bad judgment has visited this section 15(a) upon the backs of the farmers of this country. No such crime has ever been written on the statute books of this country. I speak that advisedly. I say that no such crime has ever before been written upon the statute books of this country as to levy against the shippers a tax of 5½ per cent on the aggregate value of the railroads in these groups, fixed at $60,000 a mile. It might as well have been fixed at $80,000. There is no evidence in support of either.

I want to file here for the purpose of your hearing a brief which should be printed. And I hope Mr. Sumners—and I speak of him because I know he is familiar with it and has a knowledge of our situation—will read it. I want to furnish a brief prepared by myself and the attorney general of the State of Texas, Mr. Cureton, and Mr. Bruce W. Bryant, assistant attorney general of the State of Texas, and Mr. S. C. Rowe and Mr. Paul Keyser, special counsel, attorneys for the Railroad Commission of Texas in a case brought before the Interstate Commerce Commission to have that tribunal declare that they had jurisdiction to require the railroads in Texas to charge the same percentage of advance on the rates in Texas which the Interstate Commerce Commission had fixed for the western group, and which were added to a 25 per cent rate fixed by the director general, because they found in ex parte 74 that in the western group,

of which Texas is a part, it would require 35 per cent advance to produce an aggregate net return of 5½ per cent plus ½ per cent for purchase of equipment and making improvements.

In this brief, gentlemen, we have pointed out and demonstrated by the undisputed testimony introduced before the examiner of the commission that the railroads in Texas were valued by the engineers of the railroad commission, inventoried and valued; that to that value had been added by the Texas commission what betterments had been reported to the commission. There were 3,900 miles of road; if I am mistaken in the figures, I will be corrected by the brief. They were all valued in the same manner precisely, and they did that on 3,900 miles of railroad, to wit, on the Texas & Pacific system, on the Rock Island within the State, and on the Gulf Coast Line, Trinity & Brazos Valley, and on the Texas Midland, which, as Mr. Sumners will know, are fairly representative; and that the value fixed by the Texas commissioners was greater than the value fixed by the Interstate Commerce Commission engineers; and that that value runs up only to about $33,000 a mile. The figures will show that the Texas commission allowed 33⅓ per cent advance, instead of 35 per cent; and that that would pay more than 6 per cent on the valuation as traffic then existed. The Interstate Commerce Commission never mentioned the value of the railroads in Texas. They did not fix it in ex parte 74 just because they had made, under section 15(a), a general rule of the fixing of rates in this vast territory that I have described as the western group, and then said Texas must advance its rates 35 per cent on that basis, and does not value the railroads for that purpose in Texas. But they said there would be a discrimination, and so they advanced the rates 35 per cent in Texas. Whereupon the railroads went to the Federal court and asked for an injunction, and to-day Texas is operating its 16,000 miles of railroad under a temporary restraining order just because the Interstate Commerce Commission, under section 15(a), advanced the rate 35 per cent and abolished thereby the State's power. If you will examine that brief, I think you will come to the same conclusion I did.

Now, I will take the case of a shipment of sheep from Rock Springs, Wyo., to Chicago; a man has 2,000 head of sheep, and he ships them, and pays all the expenses and charges, and they net him the pitiful sum of 32 cents per head, and, of course, he went out of the sheep business. He shipped them over the Union Pacific Railroad, which was earning all sorts of money, but he had to ship upon the rate established, and that rate could not be reduced, and they had no right to reduce it, because it is a part of the rates in that group, and the group must earn 5½ per cent. It amazes me that men of intelligence could have ever subscribed to such a proposition, had they thought of the result. I do not think the Senate committee has considered the matter of a repeal of that section. I think the farmers of this country require, at the hands of this commission, a recommendation upon that subject.

Now, let me show you further: The farmer ships all of his stuff, his cotton, his corn, his oats, and live stock to a market that is an open market, and he sells at what he can get, and he can not help himself; he can not name his price; he does not do it and has not done it, to say the least of it. They deduct from his account after

sales the freight, and the other charges, all the advance charges, and for all transportation, and he pays all of it, and his money, which he receives, is reduced by that amount. And when he ships his agricultural implements from South Bend to Des Moines, or Minneapolis, or Fort Worth, or Denver, or Salt Lake City, or anywhere else, he buys it at the price at South Bend, and the freight is added to the amount. And the man that ships from Moline, Ill., or Pekin, Ill., or any other place, pays the same price at the factory, and the freight is added. Nearly everything that is manufactured is shipped that way. When he ships barbed wire it is billed f. o. b. Pittsburgh, although it may be manufactured, and most or a lot of it is manufactured at Joliet; but it is shipped f. o. b. Pittsburgh. And so with everything else. Take the farmer, when he ships his wagon—when he buys a wagon, it comes with the freight charges on it. When he buys binder twine, it comes that way; when he buys his bagging and ties for his cotton, it comes that way.

I have witnessed, and Mr. Mercer has, before the Interstate Commerce Commission, when ex parte 74 was being heard, letters from association after association in Chicago and St. Louis and elsewhere—and I suppose there were produced not less than a million letters of that sort in Washington, and they are to-day a part of the files of the Interstate Commerce Commission, saying grant the increase; what we want is service. And there have been not less than 5,000 men, in my opinion, who have paraded in this country circulating that expression that has been repeated a million times, "What we want is service." I heard it everywhere; in the Interstate Commerce Commission office, and in the examiners' offices, and everywhere. And they testified before the commission, and one fellow who represented a national association said, "What we are afraid of is that you wont give them enough; give them what they ask for." And they did it. I said in my argument then, "When you do that you will write the epitaph of the private ownership of railroads." They have done it. So they are in that condition to-day that they can be put in the hands of receivers.

So I say the farmers are paying this advanced rate at both ends of the line. I have here, but I have not time to refer to it, the matter about the classified tonnage. And by going over this classified tonnage you will find this great army of people who were advocating these increased costs all the time are the people who do not have to pay it. They belong to the great organization of men who pass the buck; they can pass it up. The farmer can not do that. So he has been charged double the amount of freight on everything he ships out and on everything that he ships in to himself. I say that ought to be repealed. He has the right to a reasonable rate. He has the right to the judgment of the commission on the evidence whether it is reasonable or not. It should not be declared by an arbitrary rule. There is no foundation in justice or reason anywhere in saying that because in this group it takes 35 per cent, therefore the Texas lines and the Texas people should add 35 per cent increase of their rates if it was not required there.

That brings me to the point of valuation, and then I am going to conclude for the present. I guess you wish I would conclude forever. But there is the subject of valuation. I do not bear in mind

the many millions of dollars that have been expended by the division of valuation of the Interstate Commerce Commission. But many millions of dollars have been expended. I say, when the engineers have made this valuation and tentatively reported an inventory of the property as then made up and returned, and it has been submitted to the governors of the States and the railroads, that ipso facto, upon the coming in of that report, it should be made the maximum valuation until it is set aside by law, or changed, so that you will get something practical out of this, instead of the Interstate Commerce Commission throwing it in the waste basket. They said they considered it, but they did not adopt it, because there is the Texas case that proves it. I say, if you get any advantage whatever out of these millions expended for this valuation of the railroad properties, it is when Congress makes it a law, to make it prime facie the value to be followed, until it is changed, or the contrary be made to appear. I do not ask that it be made more than the prima fàcie value. But it should be taken prima facie as the value until in due process it is set aside. There is no man among you that supposes that $60,000 a mile for the railroads of the West should be taken as the value, and pay interest upon that.

When they talk about the farmers, they picture before you a nice cottage; they see vines winding around the porch posts; they see the lambs gamboling upon the green; they see the housemaid dressed in her nice gingham dress going to the spring house to get water; they see these beautiful scenes when they talk about the farmer. But I am telling you that the man who comes in from his field, after working all day, and takes his ax on his shoulder and chops wood for his wife to make a fire, after she has been sick all day, perhaps, and cook his frugal meal, and the next day he does not know where he can get the money to buy her a pair of shoes, that is the situation of the thousands of farmers of Texas and throughout this country. You can look around Washington. You can never find the conditions here. The only way you can find out is by taking a look. If I were on this commission, I would not stop this investigation until I saw into the households of this country throughout the West, and find out what the people are suffering from the situation as it exists today, controlled, as I believe it is, by the great interests in New York.

And you are breeding trouble just as fast as it can be bred by the failure to do something to relieve these people in their distress, when their labor is reaping no reward, when they see no hope of its doing it.

Gentlemen, I think it rests on this commission to hold hearings where the people can get to it.

In the hearing on ex parte 74, this great hearing room was filled with men, many of whom perhaps were drawing $50,000 a year, witnessing what was going on. There were a few pitiful representatives of the live-stock and agricultural people there that barely opened their mouths. Some of the witnesses who testified the commission scarcely mentioned their evidence. There were three or four witnesses for the live-stock interests. There were few for the citrus-fruit growers, and some from Florida. And there were several State commissions who raised their small voices to make suggestions, but they were afraid they were going to be cut off. But they might just as well have made the fight from the shoulder, and

that is the way I am going to fight. I do not believe in raising the yellow flag. I believe in fighting from the shoulder. I will have the red flag up until they roll the dirt on my trench.

I tell you, you have got to take hold of these things and make an investigation. The railroads have had the greatest return—the greatest return ever known in their history. Where did the money go? Has anybody kept tab on it; any State commission or anybody in the Interstate Commerce Commission, or any representative of any committee in Congress? I think it is somebody's duty to make an examination and find out where the money went. Have you seen any report of it? But when the investigation began before the Interstate Commerce Committee of the Senate, then came these railroads and presented figures and figures and figures to show what they did and what they had spent the money for. And I will say I will admit they did spend it for that, but those accounts show for labor, for salary, and then you will always find they add "and other expenses." Look at the items, gentlemen.

Go to the Interstate Commerce Commission office and get the annual reports of the railroads and look them over, and you will find always that item "and other expenses." They have their institution down here known as the board of railroad economics, and they worked for two months, and worked overtime, to get these figures to present down there. All that expense was paid by you and the shippers, and the expense to support these gentlemen at the big and expensive hotels here was paid by you and the others. But nobody knows where the money went. I am simply stating to you the facts, and if you do not believe it, go out and look it up. I say nobody has checked it up. Nobody has been sent out to check it up. There has been no organization. And when the Government of the United States is paying out—I don't know how much—but some billions of dollars, and is asked now to pay some hundreds of millions of dollars for the inefficiency of labor and the like. Who caused the inefficiency of labor? The same men all the way through. The same men pull the tricks all the way through.

There is no one to check it. It is a pitiable state that we are in. It is a pity that in the United States of America there is no place to which you can resort to-day to find what actually happened to the money, whether it was judiciously spent or not, any more than with the Shipping Board or the Aviation Service. Just think of it. Think of the situation we are in to-day on that account. We have got to return to these previous conditions, gentlemen. And you can do it. You have got to help the railroads do it. You will have to help them.

But when you do that you must have a supervision over that help. You must see what they do with that money. And instead of a large expense account, having large expenditures for the purpose of keeping accounts which furnish the great bond markets and stock markets and other places of the country with the information on the finances of the railroads, find out what is being actually done. It is worth your while, gentlemen. It is worth the people's while. And ultimately it must be done, and these things must take place. This method or some such method must be resorted to or the Government of the United States will have to own the railroads or we will have to do without transportation.

Referring to the matter of inefficiency and the matter of the employment of so many extra men, I think every one of you know of particular instances, and everybody in the United States knows it. In that connection I will refer to a little story illustrating that point.

A man came into Houston, Tex., and he met a master mechanic there that he knew, who asked him what he was doing. He said he wasn't doing anything. The master mechanic said to him, Do you want a job? "Yes; sure," he said, "that is what I am looking for." "Well," the master mechanic said to him, "you come down to the machine shop to-day, down to the roundhouse, and I will give you a job." This man said, "well, I am not a mechanic." "Well, that doesn't make any difference. You get yourself some overalls and a hammer and an oil can and come down there." So he came down there, and when he arrived the master mechanic said to him, "Now, you go around with this hammer; don't bother anybody; don't say anything to anybody, but when you see something here and there you go around and tap on it and listen. Or if you see a place that can be oiled you put a little oil on it. It doesn't make any difference whether it is old or new or whether it needs it or not; you just put some on. And then you report in your time at night and you will be paid $8 a day."

Well, about 3 o'clock in the afternoon this man came back to the master mechanic's office, and he said "I am going to quit this job. I don't want this thing. I went on there as you told me, and there has been a son of a gun following me around all day; I hit him on the head with the hammer, and I quit; I resign." "Why," the master mechanic said, "you fool, that was your helper. Didn't you know that?"

Now, gentlemen, where have been three men employed to do two men's work, and it has been so throughout this country. But who has checked it up? Who has tried to find it out? It is time that we go to the bottom of this proposition, instead of felicitating with one another.

When the railroad presidents came here and laid their matters before the country it was to shoulder them off, to shift them off, and shift them onto the Government. The Government did it. And the hearing stopped at that point. Now, of course, the hearings will go on after September. I am mentioning these matters so insistently to you now in the hope that you, seeing the utter ruin and destruction of an effort to continue the payment of enormous freight rates which prevent the doing of business, which prevent the movement of traffic, and which is reducing many communities to poverty, will make some report in regard to it.

I wish to request the privilege of making some analyses of some statistical data that I have with respect to the comparative commodity movements, the relative earnings of the railroads, which I have gathered from the Interstate Commerce Commission, and the amount of live stock produced from the Census Bureau and from the Bureau of Markets.

The CHAIRMAN. We will be very glad to have that data.

Mr. COWAN. I will file that in a typewritten statement with the committee, so that you may print it, and it will save your time, if you

will permit me to do so, and it will be in better form than I could give it now.

I thank the commission very much for the opportunity you have given me to get this out of my system.

Revenue traffic statistics of Class I steam roads in the United States, including mixed-train service (for 173 steam roads, switching and terminal companies not included), 5 months ended with May, 1921 and 1920.

[Interstate Commerce Commission, Bureau of Statistics.]

Freight revenue.		Revenue per ton-mile.		Passenger revenue.		Revenue per passenger-mile.	
1921	1920	1921	1920	1921	1920	1921	1920
		Cents.	*Cents.*			*Cents.*	*Cents.*
$65,940,515	$58,976,247	1.800	1.410	$38,121,249	$34,932,495	2.726	2.25
268,587,743	240,661,001	1.238	.907	69,038,242	62,699,307	2.953	2.44
359,842,359	341,202,921	1.184	.925	109,896,033	96,989,865	2.963	2.42
62,510,784	59,244,350	.782	.584	11,011,951	9,281,612	3.576	2.80
204,071,468	208,364,236	1.259	.996	63,445,617	64,419,082	3.407	2.79
168,656,866	191,009,172	1.320	.973	51,733,646	53,505,845	3.267	2.77
263,949,932	273,988,303	1.471	1.077	89,111,181	89,750,476	3.352	2.75
148,810,850	142,024,821	1.471	1.197	41,379,408	45,744,223	3.381	2.84
1,542,370,517	1,515,471,051	1.277	.974	473,737,327	457,322,905	3.141	2.60

SUPPLEMENTARY.

In the foregoing argument mention was made at different places of statistical data to be submitted herewith as a part of my statement. I therefore submit the following:

First. A statement issued by the Bureau of the Census under date of June 8, 1921, relative to the slaughtering and meat-packing industry for the year 1919, as compared with the year 1914, as follows:

A preliminary statement of the 1920 census of manufactures has been prepared by the Bureau of the Census, Department of Commerce, furnishing statistics concerning the slaughtering and meat-packing industry for the year 1919. It consists of a statement of the number and cost of animals slaughtered, and the quantities and values of the principal products manufactured during the year 1919.

The figures are compiled from 1,305 establishments with products for the year valued at $4,246,290,000. The total cost of raw materials, principally live stock, was $3,774,901,000, or 88.8 per cent of the total value of products.

The statistics for 1919 and 1914 are summarized in the following table. Those for 1919 are preliminary and subject to such change and correction as may be necessary from further examination of the original reports.

Slaughtering and meat packing, wholesale—Census Bureau's summary for the industry—1919 and 1914.

	1919	1914
MATERIALS.		
Total cost	$3,774,901,000	$1,441,663,00
Animals slaughtered, cost	$3,055,495,000	$1,199,642,00
Beeves—		
Number	10,818,000	7,149,00
Cost	$1,055,319,000	$490,108,00
Calves—		
Number	4,395,000	2,019,00
Cost	$95,720,000	$27,623,00
Sheep, lambs, goats, and kids—		
Number	13,523,000	15,952,00
Cost	$146,965,000	$84,813,00
Hogs—		
Number	44,519,000	34,442,00
Cost	$1,757,491,000	$597,098,00
All other materials, cost	$719,406,000	$242,021,00

Slaughtering and meat packing, wholesale, etc.—Continued.

	1919	1914
PRODUCTS.		
Total value	$4,246,290,000	$1,651,965,000
Fresh meat:		
Beef—		
Pounds	4,932,284,000	3,658,334,000
Value	$846,806,000	$421,297,000
Veal—		
Pounds	422,928,000	194,699,000
Value	$83,884,000	$26,299,000
Mutton, lamb, goat and kid—		
Pounds	501,201,000	629,233,000
Value	$120,451,000	$74,676,000
Pork—		
Pounds	2,112,243,000	1,877,099,000
Value	$532,075,000	$226,535,000
Edible offal and all other fresh meat—		
Pounds	516,983,000	296,667,000
Value	$59,832,000	$20,576,000
Cured meat:		
Beef, pickled and other cured—		
Pounds	129,960,000	91,572,000
Value	$28,360,000	$14,395,000
Pork, pickled and other cured—		
Pounds	4,145,232,000	2,929,310,000
Value	$1,217,420,000	$393,605,000
Canned goods:		
Pounds	305,943,000	160,799,000
Value	$96,904,000	$26,418,000
Sausage:		
Canned—		
Pounds	161,002,000	74,004,000
Value	$27,985,000	$9,845,000
All other—		
Pounds	629,701,000	435,147,000
Value	$145,601,000	$58,350,000
Lard:		
Pounds	1,372,550,000	1,119,189,000
Value	$415,817,000	$120,414,000
Lard compounds and substitutes:		
Pounds	521,122,000	396,398,000
Value	$123,724,000	$33,037,000
Oleo oil:		
Gallons	20,339,000	16,502,000
Value	$30,953,000	$11,926,000
Other oils:		
Gallons	6,721,000	6,715,000
Value	$9,153,000	$4,010,000
Tallow and oleo stock:		
Pounds	242,084,000	209,614,000
Value	$36,536,000	$13,733,000
Oleomargarine:		
Pounds	123,639,000	60,388,000
Value	$36,778,000	$8,819,000
Hides and pelts:		
Cattle hides—		
Number	10,818,000	7,159,000
Value	$185,020,000	$69,959,000
Calf—		
Number	3,353,000	1,464,000
Value	$24,797,000	$3,513,000
Sheep, lamb, goat, and kid—		
Number	12,244,000	15,917,000
Value	$33,780,000	$13,624,000
Fertilizers and fertilizer material:		
Tons	391,000	294,000
Value	$18,315,000	$8,737,000
All other products,[1] value	$172,099,000	$92,197,000

[1] Includes value of ammonia, butter, butter reworked, condensed milk, glue, glycerine, hog hair, ice, sausage casings, scrapple, soap, wool, etc., and amount received for slaughtering and refrigeration for others.

Second. Tables from reports issued by the Bureau of Foreign and Domestic Com merce showing the imports and exports of meats for the years 1910 to 1921, as follow

Merchandise imported: Quantities and values, by articles.

Article.		Calendar years. 1914	1915	1916	1917
Meat and dairy products:					
Meat products—					
Meats, fresh—					
Beef and veal	pounds	254,319,200	118,589,580	39,772,414	22,072,1
	dollars	22,758,994	11,125,444	3,988,944	3,086,7
Mutton and lamb	pounds	19,875,942	11,879,353	17,235,208	5,623,9
	dollars	1,824,168	1,109,156	1,526,688	685,4
Pork	pounds	18,952,005	3,498,294	954,561	2,580,3
	dollars	2,342,271	370,553	95,997	553,8
Total fresh meats	pounds	293,147,147	133,967,227	57,962,183	30,276,3
	dollars	26,925,433	12,605,153	5,611,574	4,327,9

Article.		Calendar year. 1918	1919	Fiscal year ending June— 1920	1921
Meat and dairy products:					
Meat products—					
Meats, fresh—					
Beef and veal	pounds	23,339,081	38,461,758	42,436,333	40,319,2
	dollars	4,159,186	6,408,081	6,962,894	6,045,3
Mutton and lamb	pounds	607,896	8,209,182	16,358,299	108,528,2
	dollars	134,290	1,547,338	2,519,355	12,843,6
Pork	pounds	1,721,979	2,779,361	2,132,444	1,212,4
	dollars	376,604	601,051	464,838	336,4
Total fresh meats	pounds	25,668,956	49,450,301	60,927,576	151,696,9
	dollars	4,670,080	8,556,470	9,947,087	19,425,5

Domestic merchandise exported: Quantities and values, by articles.

Article.		Calendar years. 1910	1911	1912	1913	1914	1915
Meat products:							
Beef products—							
Beef, canned	lbs	11,503,037	11,248,543	8,439,735	4,163,095	30,734,748	69,999,8
	dolls	1,330,048	1,311,234	1,040,891	539,889	4,897,079	11,014,9
Beef, fresh	lbs	55,538,924	28,782,481	9,025,552	6,850,123	31,442,463	262,813,3
	dolls	5,911,108	2,905,412	1,053,777	817,847	3,899,070	33,606,4
Beef, pickled, and other cured.	lbs	35,335,923	42,304,538	28,709,513	25,180,539	23,779,449	42,746,81
	dolls	3,071,975	3,181,044	2,437,460	2,507,541	2,371,563	4,597,28
Hog products—							
Bacon	lbs	128,269,744	198,112,203	192,021,658	212,796,618	184,267,850	524,138,24
	dolls	17,880,082	24,185,672	23,483,949	27,983,536	25,570,543	69,823,96
Hams and shoulders, cured.	lbs	131,181,642	189,615,032	176,058,810	171,671,407	142,398,301	266,442,81
	dolls	17,884,237	23,337,395	22,235,899	24,177,782	20,797,130	37,348,59
Lard	lbs	368,831,681	552,429,865	495,092,561	536,179,645	438,015,898	451,286,43
	dolls	45,935,897	54,504,681	52,201,560	60,664,940	48,610,269	48,342,00
Pork—							
Canned	lbs	3,715,803	5,057,999	5,185,411	3,651,101	2,786,415	7,928,94
	dolls	428,396	596,379	635,570	545,368	450,724	1,312,56
Fresh	lbs	927,229	2,231,661	2,607,659	3,182,678	1,250,977	24,230,18
	dolls	120,523	256,096	310,558	407,283	178,099	2,879,83
Pickled	lbs	41,488,829	51,029,350	54,372,819	53,984,973	37,006,108	59,047,89
	dolls	4,806,246	4,875,795	5,468,207	5,866,901	4,001,586	6,026,00
Lard compounds and other substitutes for lard.	lbs	71,993,638	69,484,042	73,724,170	63,699,754	63,355,911	63,869,98
	dolls	7,258,758	6,022,309	6,397,205	5,769,314	5,668,980	5,519,23
Mutton (except canned.)	lbs	1,997,099	2,573,653	5,076,168	4,789,431	3,847,093	4,230,92
	dolls	220,104	246,221	523,655	547,893	436,069	500,11

Domestic merchandise exported: Quantities and values, by articles—Continued.

Article.		Calendar years.				Fiscal year ending June—	
		1916	1917	1918	1919	1920	1921
Meat products:							
Beef products—							
Beef, canned	lbs.	54,026,922	65,471,232	141,457,163	53,867,327	31,133,918	10,785,306
	dolls.	11,911,790	18,258,522	51,498,010	20,672,964	9,364,410	2,521,873
Beef, fresh	lbs.	181,976,831	216,419,599	514,341,529	174,426,999	153,560,647	21,064,203
	dolls.	22,316,803	31,427,132	109,605,363	40,280,747	32,566,746	3,704,590
Beef, pickled, and other cured.	lbs.	36,682,614	67,810,990	44,206,020	42,804,724	32,383,501	23,312,856
	dolls.	3,942,826	8,319,655	7,921,220	8,739,141	5,880,766	2,998,514
Hog products—							
Bacon	lbs.	592,851,157	578,128,056	1,104,788,081	1,190,297,494	803,666,851	489,298,109
	dolls.	87,113,549	123,115,384	315,968,064	373,913,227	233,327,856	103,114,918
Hams and shoulders, cured.	lbs.	287,161,195	243,386,814	537,213,041	596,795,663	275,455,931	172,011,676
	dolls.	45,340,015	54,047,798	145,674,888	189,428,837	82,633,460	40,088,562
Lard	lbs.	426,659,599	372,721,342	548,817,901	760,901,611	587,224,549	746,157,356
	dolls.	56,039,641	75,355,138	144,933,151	237,983,449	171,523,351	131,329,199
Pork—							
Canned	lbs.	7,263,012	5,377,226	5,267,342	5,791,706	3,261,967	1,118,967
	dolls.	1,559,799	1,731,531	1,776,392	2,422,364	1,480,364	449,816
Fresh	lbs.	55,112,043	49,372,780	11,632,635	26,776,978	27,224,941	57,043,446
	dolls.	6,950,706	9,899,883	2,907,894	8,347,557	7,327,511	11,128,446
Pickled	lbs.	54,975,221	39,294,011	36,671,660	34,113,875	41,643,119	33,286,064
	dolls.	6,556,925	7,088,935	8,535,017	8,632,518	9,680,987	5,380,792
Lard compounds and other substitutes for lard.	lbs.	49,821,709	49,300,143	43,977,410	124,962,950	44,195,842	42,155,971
	dolls.	5,930,841	8,582,320	10,258,536	31,605,885	11,850,311	6,099,914
Mutton (except canned).	lbs.	5,257,883	2,862,175	1,630,815	3,009,164	3,958,131	6,624,522
	dolls.	697,847	514,856	387,132	632,667	815,452	1,291,325

The imports and exports of beef and mutton for the fiscal year 1921 were as follows: Imports 148,847,454 pounds; exports 55,182,365 pounds. It will therefore be seen that the imports exceeded the exports by 93,665,089 pounds.

Third. Tables from the reports of the Bureau of Foreign and Domestic Commerce showing the imports and exports of cattle, hogs, and sheep for the years 1910 to 1921, as follows:

Domestic merchandise exported: Quantities and values, by articles.

Article.		Calendar years.					
		1910	1911	1912	1913	1914	1915
Animals:							
Cattle	No.	109,629	164,087	46,463	26,236	8,694	16,256
	dolls.	9,464,580	14,110,081	3,623,043	851,060	515,046	2,523,689
Hogs	No.	4,019	13,246	17,478	12,118	12,399	7,261
	dolls.	46,387	107,676	144,143	133,962	157,421	85,133
Sheep	No.	52,638	177,069	191,963	170,411	78,277	40,501
	dolls.	206,796	853,300	636,856	595,324	317,939	171,361
All other (including fowls, dolls		236,336	274,944	378,339	475,411	292,034	208,182
Total	dolls.	15,292,411	20,389,993	9,449,078	7,071,055	20,419,257	121,641,460

Article.		Calendar years.				Fiscal year ending June—	
		1916	1917	1918	1919	1920	1921
Animals:							
Cattle	No.	12,171	20,009	17,280	69,859	83,039	145,673
	dolls.	658,934	1,291,714	1,082,758	6,439,521	11,921,518	10,950,507
Hogs	No.	28,301	15,588	10,308	24,745	38,107	103,414
	dolls.	339,747	276,451	333,729	683,911	982,120	2,216,500
Sheep	No.	55,059	30,359	7,962	34,531	56,155	80,723
	dolls.	268,538	278,759	120,882	369,974	711,549	532,510
All other (including fowls), dolls		396,516	383,903	288,645	464,702	575,056	931,229
Total	dolls.	92,425,609	49,005,850	15,045,142	12,003,684	19,291,197	17,617,041

Merchandise imported: Quantities and values, by articles.

Article.		Calendar years.					
		1910	1911	1912	1913	1914	1915
Animals:							
Cattle	No.	211,230	252,423	325,717	736,937	727,891	552,48[illegible]
	dolls.	3,261,023	3,915,888	5,296,296	14,692,916	19,650,903	18,627,36[illegible]
Sheep	No.	56,201	23,063	15,342	115,688	199,995	276,52[illegible]
	dolls.	406,976	153,459	89,288	312,265	657,388	984,31[illegible]

Article.		Calendar years.				Fiscal year ending June—	
		1916	1917	1918	1919	1920	1921
Animals:							
Cattle	No.	295,647	347,510	352,601	642,395	575,328	326,214
	dolls.	10,603,697	18,245,973	25,518,585	53,296,078	45,081,179	23,580,12[illegible]
Sheep	No.	125,722	202,861	150,203	22,774	199,549	161,20[illegible]
	dolls.	668,658	2,014,169	1,653,717	2,473,386	2,279,949	1,541,79[illegible]
Swine	No.	2,402	16,236	7,467	20,657	3,662	1,161
	dolls.	40,457	396,961	185,617	758,259	121,068	27,58[illegible]

We have included in the foregoing tables live stock and meats only. Figures are readily obtainable with respect to all the different classes of products, but it is not deemed necessary or desirable to present them here.

It will be observed that there was nearly a 100 per cent increase in the importations of cattle for the years 1913 and 1914 over the year 1912, and a large increase in 1912 over 1911 and in 1911 over 1910. The peak was reached in 1913, when 736,937 head were imported, falling to 552,489 head in 1915, and again reaching the high mark of 642,395 in the year 1919.

The exports for the same periods show a very small and generally insignificant number, the highest number being 164,087 head for the year 1911. The low mark was 8,694 head in the year 1914. In 1919 the number increased to 69,859.

For the year 1921 the imports of cattle were 326,214 head, and the exports 145,673 head, so that the imports exceeded the exports by 180,541 head.

Fourth. Tables from the reports of the Bureau of Foreign and Domestic Commerce showing the imports and exports of calf and cattle hides for the year 1910 to 1921, as follows:

Domestic merchandise exported: Quantities and values, by articles.

Article.		Years ended June 30—				
		1912	1913	1914	1915	1916
Hides and skins, except fur skins, raw or uncured:						
Calf	lbs.	548,242	903,922	323,417	1,074,529	1,574,369
	dolls.	99,592	155,499	69,515	248,547	469,637
Cattle	lbs.	17,445,209	17,971,809	12,524,901	21,135,730	13,284,190
	dolls.	2,289,648	2,589,603	1,933,705	4,013,172	2,938,925

Article.		Years ended June 30—		Fiscal year ended June 30—		
		1917	1918	1919	1920	1921
Hides and skins, except fur skins, raw or uncured:						
Calf	lbs.	1,374,038	3,458,001	2,778,393	2,875,600	3,148,310
	dolls.	549,459	1,462,456	1,597,141	2,282,464	69,038
Cattle	lbs.	7,365,461	7,023,761	10,189,293	16,433,766	8,802,594
	dolls.	2,041,357	1,953,700	3,236,418	6,476,671	1,251,451

Merchandise imported: Quantities and values, by articles.

Article.		Calendar years.					
		1910	1911	1912	1913	1914	1915
Calfskins	lbs.	53,157,553	82,631,186	114,859,364	76,468,995	66,915,534	48,914,776
	dolls.	11,814,440	21,227,102	31,033,634	21,243,369	16,373,257	11,334,162
Cattle hides	lbs.	221,969,098	170,649,238	303,530,775	223,549,752	308,050,216	408,632,111
	dolls.	32,925,374	25,226,945	49,178,526	40,844,504	55,931,415	78,137,660

Article.		Calendar years.				Fiscal year ending June—	
		1916	1917	1918	1919	1920	1921
Calfskins	lbs.	62,657,181	29,585,605	7,582,723	64,555,521	68,359,825	35,589,617
	dolls.	18,132,654	11,511,555	2,953,959	33,653,139	38,065,552	10,547,818
Cattle hides	lbs.	404,201,341	370,684,826	221,051,070	407,282,271	439,461,094	198,573,338
	dolls.	87,674,812	102,357,052	52,029,641	125,590,047	151,218,395	39,866,631

Wherever values have been left in the tables, it has been done only as a matter of convenient information. In the case of meats and other products it is, of course, well understood that conditions during the war and even up to this period have been too abnormal to make the value figures adaptable for the purpose of drawing deductions which are reliable.

Also the quantities of exports during the same period, which were affected by the war, can not be used for the purpose of drawing deductions as to what may be expected in the future. It is for that reason that we have presented the figures for the years before the war and brought them down to date.

Fifth. A statement compiled by Mr. John Roberts, of the Bureau of Animal Industry of the Department of Agriculture, concerning meat production, consumption, and foreign trade in the United States, 1907–1920, as follows:

Meat Production, Consumption, and Foreign Trade in United States, 1907–1920.

The accompanying tables show the trend for the last 14 years of the production, exports, imports, and consumption of each of the various kinds of meat in the United States. The data are based on two kinds of slaughter reports—(1) the complete slaughter in the United States taken by the census for 1909, and (2) the Federally-inspected slaughter, the details of which are published annually by the Bureau of Animal Industry. The combination of these reports affords a means of estimating the total slaughter from year to year. These estimates can not be made earlier than 1907, as that was the first year the Federal inspection was in operation on its present scale. Hence the tables begin with that year.

The slaughter reports referred to give results only in numbers slaughtered of each kind of animals. Average dressing percentages and average carcass weights are provided in order to convert the live animals into meat equivalents. An annual determination of these factors is necessary, because in some cases, especially with cattle and swine, the average carcass weights vary considerably from one year to the next.

The data throughout are computed from a dressed-weight basis. The edible offal (liver, pluck, etc.) is not included in the dressed weights and so is disregarded. In the aggregate it represents a large quantity of edible material, but it is more than offset by the bones and waste trimmings of the dressed carcasses. The figures in the tables, therefore, represent approximately actual meat. Lard is estimated separately from the dressed weights of swine.

The foreign-trade figures in the tables are taken from the December report of the Department of Commerce, which gives the calendar-year totals.

Note.—Slight changes have been made in the per capita consumption figures published previously for the years 1914 to 1919, inclusive. These changes have been caused by the corrections in the census-population figures following the taking of the 1920 census.

Number of animals slaughtered annually under Federal inspection and estimated number slaughtered otherwise (including farm) in United States.

Calendar year.	Cattle.	Calves.	Sheep and lambs.	Goats.	Swine.
1907—Federally inspected	7,633,365	2,024,387	10,252,070	56,750	32,885,377
Other	5,836,500	4,002,400	3,048,500	104,300	22,852,500
Total	13,469,900	6,026,800	13,300,600	161,000	55,737,900
1908—Federally inspected	7,279,260	1,958,273	10,304,666	42,981	38,643,101
Other	5,565,700	3,871,600	3,064,100	78,900	26,853,700
Total	12,845,000	5,829,900	13,368,800	121,900	65,496,800
1909—Federally inspected	7,713,807	2,189,017	11,350,349	100,659	31,394,896
Other	5,897,615	4,326,959	3,374,350	184,894	21,824,672
Total	13,611,422	6,515,976	14,724,699	285,563	53,219,568
1910—Federally inspected	7,807,600	2,238,587	11,408,020	100,379	26,003,463
Other	5,733,000	4,314,000	3,392,200	184,400	18,070,000
Total	13,540,600	6,552,600	14,800,200	284,800	44,073,500
1911—Federally inspected	7,619,096	2,183,533	14,020,446	38,891	34,232,955
Other	5,339,000	4,081,000	4,169,100	71,400	23,789,000
Total	12,958,100	6,264,500	18,189,500	110,300	58,022,000
1912—Federally inspected	7,252,378	2,277,946	14,979,265	72,894	33,052,727
Other	4,726,600	4,070,100	4,454,100	133,900	22,969,300
Total	11,979,000	6,348,000	19,433,400	206,800	56,022,000
1913—Federally inspected	6,978,361	1,902,414	14,405,759	75,655	34,198,565
Other	4,499,200	3,382,100	4,283,600	138,900	23,774,900
Total	11,477,600	5,284,500	18,689,400	214,600	57,973,500
1914—Federally inspected	6,756,737	1,696,962	14,229,343	175,906	32,531,840
Other	4,247,800	2,964,400	4,231,200	323,100	22,516,300
Total	11,004,500	4,661,400	18,460,500	499,000	55,148,100
1915—Federally inspected	7,153,395	1,818,702	12,211,765	153,346	38,381,228
Other	3,668,700	2,820,800	3,631,200	281,700	26,682,800
Total	10,822,100	4,639,500	15,843,000	435,000	65,064,000
1916—Federally inspected	8,310,458	2,367,303	11,941,366	198,909	43,083,703
Other	3,716,200	3,406,600	3,550,800	365,400	29,951,900
Total	12,026,700	5,773,900	15,492,200	564,300	73,035,600
1917—Federally inspected	10,350,052	3,142,721	9,344,994	165,660	33,909,704
Other	3,373,800	3,888,000	2,778,800	304,300	23,574,100
Total	13,723,900	7,030,700	12,123,800	470,000	57,483,800
1918—Federally inspected	11,828,549	3,456,393	10,319,877	137,725	41,214,250
Other	3,921,900	4,310,800	3,065,200	252,400	28,640,400
Total	15,750,400	7,767,200	13,385,100	390,100	69,854,700
1919—Federally inspected	10,089,984	3,969,019	12,691,117	87,380	41,811,830
Other	3,545,100	5,072,000	3,769,500	160,100	29,055,700
Total	13,635,100	9,041,000	16,460,600	247,500	70,867,500
1920—Federally inspected	8,608,691	4,058,370	10,982,180	42,477	38,018,604
Other	3,567,400	5,604,400	3,265,600	78,000	26,430,700
Total	12,176,400	9,662,800	14,247,800	120,500	64,449,400

A few horses are slaughtered under the Federal inspection, and probably more otherwise, the flesh being mostly used to feed wild animals in zoological gardens, menageries, etc. The Federal inspection of horses commenced in September, 1919, and 433 were slaughtered up to the end of the year. During 1920 the number slaughtered was 894. A large proportion of the inspected horseflesh is exported.

Estimated annual production, exports, imports, and consumption of beef in United States.

Calendar year.	Slaughter.			Exports.	Imports (less re-exports).	Consumption.	
	Total.	Federally inspected.	Other.			Total.	Per capita.
	Million pounds.	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Pounds.*
1907	7,320	4,336	2,984	352		6,968	79.7
1908	6,676	3,955	2,721	228		6,448	72.4
1909	7,071	4,199	2,882	163		6,908	76.2
1910	7,323	4,240	3,083	110		7,313	78.1
1911	7,036	4,137	2,899	92		6,944	73.9
1912	6,509	3,938	2,571	56		6,453	67.5
1913	5,913	3,595	2,318	47	38	5,904	60.8
1914	5,639	3,601	2,038	95	265	5,809	58.9
1915	5,816	3,979	1,837	399	110	5,527	55.6
1916	6,118	4,362	1,756	287	20	5,851	58.1
1917	6,686	5,169	1,517	376	29	6,339	62.0
1918	7,641	5,885	1,756	728	112	7,025	67.8
1919	6,571	4,993	1,578	314	43	6,300	60.0
1920	6,111	4,451	1,660	164	53	6,000	56.4

The trend of beef production, which was especially high in 1907 and 1910, declined steadily from the last-named year until the advent of the World War. The war production culminated in 1918 with the largest total on record. The effort, however, to some extent depleted the resources of the producers, and with other causes brought about a reaction during 1919 and 1920.

Exports of beef at one time formed a large and important branch of our foreign trade, but by 1913 they had largely disappeared and foreign beef began to come in. The exports were large from 1915 to 1918 solely because of the war needs and have since fallen away very noticeably.

Imports of meat previous to 1913 were so small that they were not enumerated separately in the commerce reports. Imports of beef in 1914, however, were quite considerable. At this period the sources of cheap beef in the Southern Hemisphere, especially Argentina, had developed enormously, and they had, in fact, supplanted the United States in the overseas trade with Europe.

Consumption of beef, as seen in the table, was at the lowest point in 1915, shortly after the advent of the World War. Restricted supply and high prices brought the next lowest consumption per head in 1920.

Estimated annual production, exports, and consumption of veal in United States.

Calendar year.	Slaughter.			Consumption.	
	Total.	Federally inspected.	Other.	Total.	Per capita.
	Million pounds.	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Pounds.*
1907	626	210	416	626	7.1
1908	605	203	402	605	6.8
1909	684	230	454	684	7.5
1910	687	235	452	687	7.4
1911	657	229	428	657	7.0
1912	668	239	429	668	7.0
1913	488	176	312	488	5.0
1914	433	158	275	433	4.4
1915	428	168	260	428	4.3
1916	536	220	316	536	5.3
1917	662	296	366	662	6.5
1918	726	323	403	726	7.0
1919	851	373	478	851	8.1
1920	909	382	527	909	8.5

Veal production, as a rule, follows that of beef. The unusually large slaughter in the last two years, however, contrasts rather curiously with the considerable decline in cattle slaughter in the same period. It is accounted for partly by the droughty conditions in the West, which induced heavy marketings of young stock during 1919 and the relatively higher prices for calf products in 1920.

Country slaughter of veal is proportionately much larger than for any other class of animals. The Federally-inspected slaughter of calves in 1909 was about one-third of the total slaughter; and, although it is increasing, it is estimated to be still well below one-half of the total.

The consumption of veal corresponds to the production, as there are no imports or exports recorded. The per capita consumption for the whole period has averaged close to 7 pounds per annum. It was lowest in 1915 (4.3 pounds) and highest in 1920 (8.5 pounds).

Estimated annual production, exports, imports, and consumption of mutton and lamb in United States.

Calendar year.	Slaughter.			Exports.	Imports (less re-exports).	Consumption.	
	Total.	Federally inspected.	Other.			Total.	Per capita.
	Million pounds.	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Pounds.*
1907	559	431	128	1		558	6.4
1908	555	428	127	1		554	6.2
1909	604	466	138	2		602	6.6
1910	600	463	137	2		598	6.5
1911	738	569	169	3		735	7.8
1912	788	608	180	5		783	8.2
1913	738	569	169	5	1	734	7.5
1914	720	555	165	4	20	736	7.5
1915	626	482	144	4	12	634	6.4
1916	612	472	140	5	16	623	6.2
1917	473	364	109	3	6	476	4.7
1918	522	402	120	2	1	521	5.0
1919	626	482	144	3	8	631	6.0
1920	556	428	128	4	101	653	6.1

The production and consumption of mutton and lamb is very small in comparison with beef and pork. It averages only about one-tenth of beef and one-twelfth of pork. The table shows the production of mutton and lamb to have been greatest from 1911 to 1914, in each of which years it exceeded 700,000,000 pounds. The year of lowest production was 1917, when the yield was only 473,000,000 pounds. Since 1917 the trend was upward for two years, but declined again in 1920.

The proportion of Federal-inspected slaughter is greater with sheep and lambs than with any other class of live stock. Nearly four-fifths of the total mutton and lamb produced is inspected in establishments having Government supervision.

Normally, there is very little foreign trade in mutton or lamb, but last year saw a new departure in heavy imports of Australasian product. These imports amounted to nearly one-fifth of the total production.

The table shows the per capita consumption ranging between 8.2 pounds (highest) in 1912 and 4.7 pounds (lowest) in 1917. There has been a steady rise in the last three years.

Estimated annual production, exports, imports, and consumption of pork and lard in United States.

PORK.

Calendar year.	Slaughter.			Exports.	Imports (less re-exports).	Consumption.	
	Total.	Federally inspected.	Other.			Total.	Per capita.
	Million pounds.	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Pounds.*
1907	7,491	4,420	3,071	1,014	....	6,477	74.1
1908	8,226	4,853	3,373	619	....	7,607	85.4
1909	6,690	3,946	2,744	472	....	6,218	68.6
1910	5,881	3,470	2,411	313	....	5,568	60.3
1911	7,511	4,481	3,080	456	....	7,055	75.1
1912	7,189	4,242	2,947	440	....	6,749	70.6
1913	7,492	4,420	3,072	456	3	7,039	72.5
1914	7,228	4,264	2,964	377	38	6,889	69.9
1915	8,050	4,749	3,801	906	7	7,151	72.0
1916	8,634	5,196	3,448	1,011	2	7,625	75.7
1917	6,901	4,071	2,830	943	10	5,968	58.4
1918	9,137	5,391	3,746	1,724	97	7,510	72.5
1919	9,269	5,469	3,800	1,897	11	7,383	70.3
1920	8,470	4,996	3,474	925	6	7,551	71.0

LARD.

Calendar year.	Slaughter: Total.	Federally inspected.	Other.	Exports.	Imports (less re-exports).	Consumption: Total.	Per capita.
1907	1,693	993	690	589	....	1,094	12.5
1908	1,834	1,094	760	582	....	1,272	14.3
1909	1,506	888	618	458	....	1,048	11.6
1910	1,344	793	551	379	....	965	10.5
1911	1,717	1,013	704	605	....	1,112	11.8
1912	1,643	969	674	553	....	1,090	11.4
1913	1,713	1,011	702	575	....	1,138	11.7
1914	1,652	975	677	460	....	1,192	12.1
1915	1,840	1,086	754	487	....	1,353	13.6
1916	1,973	1,164	809	454	....	1,519	15.1
1917	1,577	930	647	383	....	1,194	11.7
1918	2,089	1,233	856	555	....	1,534	14.8
1919	2,119	1,250	869	784	....	1,335	12.7
1920	1,936	1,142	794	636	....	1,300	12.2

It is well known that the hog industry is subject to rather violent changes due to the economic situation and the character of the corn crop in a given year. This is illustrated in the tables, in which it may be seen there are three lean years, viz, 1909, 1910, and 1917. The shortage in 1909 and 1910 was due to the failure of the corn crop, and that of 1917 is attributed to overmarketing, including breeding stock, in the preceding year, due mostly to the attraction of high war prices. The enormous productions in 1918 and 1919 evidence a remarkable recovery, which would have been impossible with any other class of live stock than the prolific and quick-maturing hog. The production in 1920 probably suffered somewhat from the heavy marketings of the previous year.

The exports of pork products, excluding lard, in 1920 indicate a return to normal proportions as compared with the enormous war-time shipments of the previous two years. The reversal was no doubt aided by the shorter production and by the international economic conditions.

Regarding the exports of lard, it may be noted that those of the war period did not exceed the prewar totals as did those of other pork products. Lard exports have been large for a long period of years; in fact, the American lard hog has never had a competitor in the world's markets. It is, nevertheless, rather surprising to note that the lard exports of 1911 to 1913 were larger even than those of the years from 1915 to 1918. This is explained by the fact that the Central Powers, especially Germany, as well as the continental European neutrals, were large consumers of our lard, and the loss of this trade affected the totals until 1919, when foreign shipments were the largest in history. The lard exports were very large also in 1920, although those of other products fell off fully 50 per cent.

The largest quantity of pork products consumed within a year occurred i 1916, and the next highest figures were in 1908 and 1918. The smallest con sumption occurred in 1910 and 1917, in which years the production, as befor stated, was much below normal. The per capita consumption was highest i 1908 and lowest in 1917. The difference between these two years shows th wide margin of 28 pounds, but it may be stated that the unusually low figur in 1917 was caused not only by the short production but also in large measur by the high prices and the need of conserving a scarce supply for export.

Estimated annual production, exports, imports, and consumption of all meats (excluding lard) in United States.

Calendar year.	Slaughter. Total.	Slaughter. Federally inspected.	Slaughter. Other.	Exports.	Imports (less re-exports).	Consumption. Total.	Consumption. Per capita.
	Million pounds.	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Million pounds.*	*Pounds.*
1907	16,003	9,399	6,604	1,367	....	14,636	167.[illegible]
1908	16,067	9,441	6,626	848	....	15,219	170.[illegible]
1909	15,060	8,835	6,225	637	....	14,423	159.[illegible]
1910	14,502	8,412	6,090	412	....	14,090	152.[illegible]
1911	15,946	9,368	6,578	534	....	15,412	163.[illegible]
1912	15,162	9,030	6,132	486	....	14,676	153.[illegible]
1913	14,640	8,763	5,877	507	41	14,174	145.[illegible]
1914	14,039	8,585	5,454	475	323	13,887	140.[illegible]
1915	14,937	9,384	5,553	1,309	129	13,757	138.[illegible]
1916	15,922	10,248	5,674	1,304	38	14,656	145.[illegible]
1917	14,740	9,906	4,834	1,322	44	13,462	131.[illegible]
1918	18,041	12,006	6,035	2,454	210	15,797	152.[illegible]
1919	17,326	11,320	6,006	2,215	62	15,173	144.[illegible]
1920	16,051	10,259	5,792	1,093	160	15,118	142.[illegible]

[1] Includes small quantity of goat meat not given separately.

The figures in the table above are merely the addition of the various meats in the previous tables plus a small quantity of goat meat. The latter, however, furnishes only about one-tenth of a pound per capita of the total meat consumption in the country.

It may be seen from the last table that the banner year in meat production was 1918, when a little over 18,000,000,000 pounds were produced. Two-thirds of this meat was examined and certified as fit for human food by Federal inspectors. One-third, or 6,000,000,000 pounds, was subject to State or local inspection, or no inspection at all, and practically all of this was slaughtered and consumed within State boundaries. During the last two years the production has fallen off at the rate of about 1,000,000,000 pounds a year, but because of the decrease in exports there was little change in the consumption totals of 1919 and 1920.

NOTE.—Any conflict or disparity in the figures of the foregoing tables and those contained in Mr. Roberts's report doubtless arise from the different periods, i. e., whether the fiscal year or the calendar year is used, or the difference in the classes of animals or products. They all originate from the same source.

Sixth. Statements issued by the Bureau of the Census in June, 1921, showing the number of cattle, swine, sheep, and goats on farms in the United States on January 1, 1920, as compared with April 15, 1910, as follows: These figures do not include a number of animals in village barns and elsewhere other than on farms which, as shown by the Bureau of the Census, numbered on January 1, 1920, 2,111,928 cattle and 1,220,564 dairy cows, and on April 15, 1910, 1,878,782 cattle and 1,170 338 dairy cows.

CATTLE ON FARMS IN THE UNITED STATES.

WASHINGTON, D. C., *June 8, 1921.*

The Bureau of the Census, of the Department of Commerce, announces, subject to correction, the following preliminary figures from the 1920 census of agriculture for the United States, with comparative figures for 1910:

Cattle on farms in the United States: 1920 and 1910.

Cattle on farms Jan. 1, 1920, total number	66, 810, 836
Beef cattle, total	35, 424, 458
Calves under 1 year of age	8, 631, 631
Heifers 1 year old and under 2 years	3, 980, 343
Cows and heifers 2 years old and over	12, 644, 018
Steers 1 year old and under 2 years	4, 697, 147
Steers 2 years old and over	4, 611, 763
Bulls 1 year old and over	777, 704
Unclassified	81, 852
Dairy cattle, total	31, 386, 378
Calves under 1 year of age	6, 904, 586
Heifers 1 year old and under 2 years	4, 057, 644
Cows and heifers 2 years old and over	19, 671, 777
Bulls 1 year old and over	752, 371
Cattle on farms Apr. 15, 1910, total number	61, 803, 866
Spring calves	7, 806, 539
Cattle born before Jan. 1, 1910	53, 997, 327

The number of cattle on farms in the United States on January 1, 1920, according to the Fourteenth Census, was 66,810,836. This number included 35,424,458 beef cattle (cattle kept mainly for beef production) and 31,386,378 dairy cattle (cattle kept mainly for milk production).

BEEF AND DAIRY CATTLE.

The beef cattle included 8,631,631 calves under 1 year of age, 3,980,343 yearling heifers, 12,644,018 cows and heifers 2 years old and over, 4,697,147 yearling steers, 4,611,763 steers 2 years old and over, 777,704 bulls 1 year old and over, and 81,852 cattle not classified by age or sex.

The dairy cattle included 6,904.586 calves under 1 year of age, 4,057,644 yearling heifers, 19,671,777 cows and heifers 2 years old and over, and 752,371 bulls 1 year old and over.

COMPARISON WITH 1910.

The number of cattle reported at the census of 1910 was 61,803,866, but the change in the date of enumeration, from April 15 in 1910 to January 1 in 1920, must be taken into account in making any comparisons between the two years. The 1920 census, taken as of January 1, was too early to include any spring calves, while the 1910 census, taken as of April 15, included 7,806,539 calves born between January 1 and April 15, 1910, or probably more than one-half of the calves born in the spring of that year. On the other hand, the cattle enumerated as of January 1, 1920, included large numbers of animals destined to be slaughtered or marketed before April 15.

The relative importance of these two factors resulting from the change in the date of enumeration varies from State to State. In some States the number of calves born in the first three and one-half months of the year would greatly exceed the number of cattle slaughtered or sent to market, while in other States the number of cattle slaughtered during this period might almost offset the number of calves born.

For the United States as a whole, the total number of cattle reported for 1920 exceeds the total number in 1910 by 5,006,970. The actual increase, after due allowance has been made for the effects of the change in date of enumeration, is doubtless more than this, but less than the difference between the number of cattle in 1910, excluding spring calves, and the number of cattle in 1920.

STATES RANKING HIGHEST IN CATTLE.

Five States reported more than 3,000,000 cattle on farms for January 1, 1920, as follows: Texas, 6,249,443; Iowa, 4,567,708; Nebraska, 3,167,279; Wisconsin, 3,050,829; and Minnesota 3,021,469. The States reporting the largest numbers of dairy cows 2 years old and over were Wisconsin with 1,795,122; New York, with 1,481,918; and Minnesota, with 1,229,179, no other State reporting as many as 1,000,000 dairy cows 2 years old and over.

Number of cattle on farms in the United States, by geographic divisions and States: 1920 and 1910.

Division or State.	Number of cattle on farms Jan. 1, 1920.													Number of cattle on farms Apr. 15, 1910.
	All cattle.	Beef cattle.							Dairy cattle.					
		Total.[1]	Calves under 1 year of age.	Heifers 1 year old and under 2 years.	Cows and heifers 2 years old and over.	Steers 1 year old and under 2 years.	Steers 2 years old and over.	Bulls 1 year old and over.	Total.	Calves under 1 year of age.	Heifers 1 year old and under 2 years.	Cows and heifers 2 years old and over.	Bulls 1 year old and over.	
United States	66,810,836	35,424,458	8,631,631	3,980,343	12,644,018	4,697,147	4,611,763	777,704	31,386,378	6,904,586	4,057,644	19,671,777	752,371	61,803,866
Geographic divisions:														
New England	1,320,262	88,771	15,530	7,790	22,437	14,522	25,241	3,251	1,231,491	183,934	172,711	842,928	31,918	1,336,550
Middle Atlantic	3,864,519	318,491	64,312	27,629	59,911	59,894	83,546	23,199	3,546,028	519,810	429,707	2,486,701	109,810	4,232,521
East North Central	10,900,350	3,090,127	829,270	356,740	794,689	595,202	442,979	71,247	7,810,223	1,549,446	1,034,014	5,032,552	194,211	9,819,097
West North Central	20,222,805	12,713,663	3,454,845	1,473,811	3,921,271	1,923,921	1,660,752	267,888	7,509,142	1,820,708	977,747	4,512,861	197,826	17,647,714
South Atlantic	4,709,641	2,089,241	469,386	249,303	727,769	262,280	294,558	46,445	2,620,400	546,442	339,796	1,676,471	57,691	4,839,321
East South Central	4,549,786	1,709,820	466,922	218,887	507,660	264,370	216,498	35,483	2,839,966	758,524	353,085	1,677,992	50,365	3,942,526
West South Central	10,213,699	6,866,404	1,400,060	663,349	3,065,110	673,140	899,690	163,049	3,347,295	966,093	416,799	1,901,544	62,859	10,721,012
Mountain	7,597,985	6,554,339	1,503,181	752,376	2,813,480	652,267	671,451	132,413	1,043,646	270,680	134,866	619,581	18,519	6,060,725
Pacific	3,431,789	1,993,602	428,125	230,458	731,691	251,551	317,048	34,729	1,438,187	288,949	198,919	921,147	29,172	3,204,400
New England:														
Maine	300,747	33,474	6,046	2,864	7,092	6,509	9,701	1,262	267,273	43,898	41,596	175,425	6,354	256,523
New Hampshire	163,653	18,277	3,019	1,424	3,631	3,337	6,270	596	145,376	22,482	23,206	95,997	3,691	167,831
Vermont	435,480	14,200	2,501	1,023	3,219	2,568	4,347	542	421,280	64,147	55,521	290,122	11,490	430,314
Massachusetts	216,099	10,089	1,823	1,317	4,533	760	1,242	414	206,010	26,618	26,513	147,331	5,548	252,416
Rhode Island	30,519	1,706	244	164	837	97	288	76	28,813	3,183	3,483	21,431	716	34,148
Connecticut	173,764	11,025	1,897	998	3,225	1,251	3,393	361	162,739	23,606	22,392	112,622	4,119	195,318
Middle Atlantic:														
New York	2,144,244	63,170	14,737	6,257	20,467	11,164	9,328	1,277	2,081,074	291,721	248,164	1,481,918	59,271	2,423,003
New Jersey	179,459	6,766	1,793	573	2,656	573	813	358	172,693	18,764	17,635	130,497	5,797	222,999
Pennsylvania	1,540,816	248,555	47,782	20,799	36,848	48,157	73,405	21,564	1,292,261	209,325	163,908	874,286	44,742	1,586,519
East North Central:														
Ohio	1,926,823	577,450	148,118	71,821	137,415	119,977	86,909	13,710	1,349,373	261,003	171,426	888,057	28,887	1,837,607
Indiana	1,546,095	599,694	158,923	75,683	171,171	109,333	70,047	14,537	946,401	200,248	118,662	608,211	19,285	1,368,016
Illinois	2,803,389	1,292,778	350,397	139,437	361,640	208,765	202,684	29,855	1,510,611	315,633	193,860	957,986	43,132	2,440,577
Michigan	1,573,214	332,859	100,725	39,030	50,881	91,219	43,892	7,112	1,240,355	269,311	165,371	783,176	22,497	1,497,823
Wisconsin	3,050,829	287,346	71,107	31,269	73,582	65,908	39,447	6,033	2,763,483	503,256	384,696	1,795,122	80,410	2,680,074
West North Central:														
Minnesota	3,021,469	940,842	248,319	112,417	252,183	182,242	120,620	25,061	2,080,627	479,210	303,279	1,229,179	68,959	2,347,435
Iowa	4,567,708	3,048,198	854,656	338,641	848,914	519,596	421,028	65,363	1,519,510	385,628	196,707	897,668	39,507	4,448,006

Missouri[1]	2,781,644	1,714,804	445,190	181,048	533,678	287,127	255,250	32,595	1,066,780	254,069	131,317	661,959	19,405	2,561,482
North Dakota	1,334,552	674,529	212,398	55,051	211,064	99,204	50,669	16,123	660,023	181,790	90,886	370,707	17,191	743,762
South Dakota	2,574,763	1,818,784	409,511	222,155	574,690	246,045	263,718	34,102	555,979	183,767	70,444	338,253	13,515	1,585,276
Nebraska	3,167,279	2,470,779	682,546	293,630	828,702	326,845	286,668	50,276	696,800	158,864	78,604	440,838	18,194	2,982,850
Kansas	2,975,390	2,045,637	542,216	240,869	672,028	283,362	262,799	44,368	929,753	227,431	107,010	574,257	21,055	3,079,408
South Atlantic:														
Delaware	46,509	1,752	416	162	749	142	214	69	44,757	5,141	4,852	33,026	1,738	54,986
Maryland	283,377	53,666	6,177	3,308	10,396	8,414	28,272	2,099	229,711	31,345	26,565	161,972	9,829	287,751
District of Columbia	965	19	3	3	10	3			946	118	95	704	29	982
Virginia	914,674	403,985	108,090	42,214	61,155	76,201	114,980	6,395	510,689	83,952	59,894	357,880	8,963	859,067
West Virginia	587,462	332,441	91,696	45,553	71,664	63,191	55,352	4,985	255,021	41,558	28,608	181,206	3,649	620,288
North Carolina	644,779	182,702	56,306	24,492	58,136	20,289	19,003	4,476	462,077	99,222	64,334	290,223	8,298	700,861
South Carolina	435,462	117,386	29,683	15,302	49,428	7,797	10,496	4,680	318,076	81,835	40,822	188,305	7,114	389,882
Georgia	1,157,432	478,940	103,315	64,886	214,300	45,063	35,997	15,379	678,492	175,276	96,387	391,514	15,315	1,080,316
Florida	638,981	518,350	78,700	53,383	261,931	41,180	35,294	8,362	120,631	27,995	18,239	71,641	2,756	845,188
East South Central:														
Kentucky	1,093,453	433,659	129,036	55,362	79,318	92,743	70,073	7,127	659,794	137,312	73,571	441,346	7,565	1,000,937
Tennessee	1,161,846	492,486	155,996	64,345	95,373	96,028	71,609	9,135	669,360	165,877	79,595	415,128	8,760	996,529
Alabama	1,044,008	322,434	71,693	42,117	128,350	35,971	35,191	9,112	721,574	214,219	97,051	394,112	16,192	932,428
Mississippi	1,250,479	461,241	110,197	57,063	204,619	39,628	39,625	10,109	789,238	241,116	102,868	427,406	17,848	1,012,632
West South Central:														
Arkansas	1,072,966	345,806	88,791	43,466	119,843	50,011	39,531	6,164	727,160	198,445	101,182	415,507	12,026	1,028,071
Louisiana	804,241	487,709	100,343	63,856	252,662	31,259	30,276	9,313	316,532	92,886	40,754	176,936	5,956	804,795
Oklahoma	2,087,049	1,265,317	306,188	155,290	494,080	147,544	137,119	25,096	821,732	235,306	105,835	464,556	16,035	1,953,560
Texas	6,249,443	4,767,572	906,738	400,737	2,198,525	444,326	692,764	122,476	1,481,871	439,456	169,028	844,545	28,842	6,934,586
Mountain:														
Montana	1,268,516	1,057,418	275,564	130,705	384,148	118,516	108,544	16,423	211,098	54,422	25,844	127,581	3,251	943,147
Idaho	714,903	512,512	129,276	63,508	187,006	71,976	49,740	8,678	202,391	56,207	27,616	115,336	3,232	453,807
Wyoming	873,729	814,386	206,541	92,951	298,840	84,394	118,348	13,312	59,343	16,615	6,893	34,933	902	767,427
Colorado	1,756,616	1,434,423	325,033	162,545	529,186	191,701	200,026	25,932	322,193	81,447	41,513	192,234	6,999	1,127,737
New Mexico	1,300,335	1,237,541	249,545	127,748	664,329	67,242	97,446	31,231	62,794	15,779	8,022	37,805	1,188	1,081,663
Arizona	821,918	768,197	153,137	76,497	429,480	41,165	41,819	22,774	53,721	13,293	7,768	31,619	1,041	824,929
Utah	505,578	397,563	94,528	53,825	175,128	41,917	24,557	7,608	108,015	25,794	14,077	66,724	1,420	412,334
Nevada	356,390	332,299	69,557	44,597	145,363	35,356	30,971	6,455	24,091	7,123	3,133	13,349	486	449,681
Pacific:														
Washington	572,644	193,819	51,062	24,045	64,924	26,861	23,668	3,259	378,825	80,990	51,365	238,270	8,200	402,120
Oregon	851,108	570,697	134,748	72,193	225,708	66,380	61,113	10,555	280,411	57,840	36,011	180,462	6,098	725,255
California	2,008,037	1,229,086	242,315	134,220	441,059	158,310	232,267	20,915	778,951	150,119	111,543	502,415	14,874	2,077,025

[1] The United States total includes 81,852 cattle not classified by age or sex. This number is distributed by States as follows: South Dakota, 8,563; Nebraska, 2,612; Florida, 39,500; Texas, 2,006; Montana, 23,518; Idaho 2,328; and Arizona, 3,325.

SWINE ON FARMS IN THE UNITED STATES.

WASHINGTON, D. C., *June 4, 1921.*

The Bureau of the Census of the Department of Commerce announces, subject to correction, the following preliminary figures from the 1920 census of agriculture for the United States, with comparative figures for 1910:

Swine on farms in the United States, 1920 and 1910.

Swine on farms Jan. 1, 1920, total number	59, 368, 167
Pigs under 6 months old	26, 237, 924
Sows and gilts for breeding, 6 months old and over	11, 445, 239
Boars for breeding, 6 months old and over	934, 553
All other hogs, 6 months old and over	20, 750, 451
Swine on farms Apr. 15, 1910	58, 185, 676

The number of swine on farms in the United States on January 1, 1920, according to the Fourteenth Census, was 59,368,167. This number included 26,237,924 pigs under 6 months old on that date, 11,445,239 sows and gilts 6 months old and over kept for breeding purposes, 934,553 boars kept for breeding purposes, and 20,750,451 other hogs 6 months old and over.

The number of swine reported at the 1910 census was 58,185,676, but the change in the date of enumeration from April 15 in 1910 to January 1 in 1920, must be taken into consideration in making any comparisons between the two years. The 1920 census, taken in January, was too early to include any spring pigs, while the 1910 census, taken in April (beginning Apr. 15), probably included more than half of the "crop" of spring pigs. On the other hand, a farm census taken in January would include large numbers of hogs destined for sale or slaughter before April 15.

The relative importance of these two factors resulting from the change in the date of enumeration varies from State to State. In those States where the number of pigs born in the first three and a half months of the year is greater than the number of hogs slaughtered or marketed, the 1910 figures, relating to April 15, are too large for a fair comparison with the number of swine on hand January 1, 1920—as much too large as the number of pigs born between January 1 and April 15 exceeds the number of hogs sold or slaughtered during the same period. On the other hand, if in any State the number of swine slaughtered or sent to market between January 1 and April 15 were greater than the number of pigs born during the same period, the 1910 figures would be too small for a fair comparison with the 1920 figures.

Arranging the States in order of the number of hogs and pigs reported, it appears that the following States stood at the head of the list (and in the same order) both in 1920 and in 1910: Iowa, with 7,864,304 swine on farms in 1920; Illinois, with 4,640,447; Missouri, with 3,888,677; Indiana, with 3,757,135; Nebraska, with 3,441,917; and Ohio, with 3,083,846. These six States are the only ones which reported more than 3,000,000 swine in 1920.

Kansas ranked seventh in 1910, but showed a decided falling off in 1920. This was accompanied by a marked decrease in the acreage and production of corn and a corresponding increase in wheat and oats, and doubtless indicates a change in type of farming. A similar situation prevails in Oklahoma, which also shows a considerable decrease in the number of swine reported for 1920, as compared with 1910. Most of the Mountain States, on the other hand, show a decided increase in the number of hogs on farms.

Number of swine on farms in the United States, by geographic divisions and States=1920 and 1910.

Division or State.	Swine on farms Jan. 1, 1920. Total.	Pigs under 6 months old.	Sows and gilts for breeding, 6 months old and over.	Boars for breeding, 6 months old and over.	All other hogs, 6 months old and over.	Swine on farms Apr. 15, 1910.
United States	59,368,167	26,237,924	11,445,239	934,553	20,750,451	58,185,676
Geographic divisions:						
New England	383,752	219,624	57,224	6,834	100,070	396,642
Middle Atlantic	1,955,982	1,161,410	279,037	32,586	482,949	1,790,821
East North Central	14,184,054	7,371,160	2,645,914	230,954	3,936,026	14,461,059
West North Central	21,699,968	6,830,783	4,970,042	363,436	9,535,707	21,281,509
South Atlantic	6,537,392	3,454,254	1,049,190	103,967	1,929,981	5,963,920
East South Central	6,206,942	3,045,326	918,442	71,322	2,171,852	5,438,606
West South Central	5,766,535	2,885,354	1,090,946	85,352	1,704,883	7,021,945
Mountain	1,192,745	538,373	214,194	18,520	421,658	640,911
Pacific	1,440,797	731,640	220,250	21,582	467,325	1,190,263
New England:						
Maine	91,204	53,036	12,414	1,553	24,201	87,156
New Hampshire	41,655	25,053	5,765	754	10,083	45,237
Vermont	72,761	46,386	10,779	1,067	14,509	94,821
Massachusetts	104,192	53,757	17,742	2,042	30,651	103,018
Rhode Island	12,869	6,833	1,701	261	4,074	14,038
Connecticut	61,071	34,559	8,823	1,137	16,552	52,372
Middle Atlantic:						
New York	600,560	379,413	90,368	8,898	121,881	666,179
New Jersey	139,222	74,817	21,174	2,659	40,572	147,005
Pennsylvania	1,216,200	707,180	167,495	21,029	320,496	977,637
East North Central:						
Ohio	3,083,846	1,888,040	493,603	44,823	657,380	3,105,627
Indiana	3,757,135	2,171,143	636,025	59,888	890,079	3,613,906
Illinois	4,640,447	1,887,313	929,823	77,271	1,746,040	4,686,362
Michigan	1,106,207	686,866	184,577	14,302	220,462	1,245,833
Wisconsin	1,596,419	737,798	401,886	34,670	422,065	1,809,331
West North Central:						
Minnesota	2,380,862	627,745	617,538	52,436	1,083,143	1,520,257
Iowa	7,864,304	2,116,191	1,967,351	124,981	3,685,781	7,545,853
Missouri	3,888,677	1,937,526	677,481	57,665	1,216,005	4,438,194
North Dakota	458,265	133,870	126,760	11,614	186,021	331,603
South Dakota	1,932,741	377,474	545,248	37,635	972,384	1,009,721
Nebraska	3,441,917	814,078	783,207	53,858	1,790,774	3,435,724
Kansas	1,733,202	823,899	282,457	25,247	601,599	3,000,157
South Atlantic:						
Delaware	38,621	21,814	4,602	603	11,602	49,260
Maryland	306,452	181,938	41,320	6,042	77,152	301,583
District of Columbia	1,331	540	295	42	454	665
Virginia	941,374	576,119	119,472	14,613	231,170	797,635
West Virginia	305,211	192,818	44,661	5,109	62,603	328,188
North Carolina	1,271,270	642,121	180,954	20,653	427,542	1,227,625
South Carolina	846,997	402,546	128,483	13,477	302,491	665,211
Georgia	2,070,655	1,053,285	363,239	30,813	623,318	1,783,684
Florida	755,481	383,053	166,164	12,615	193,649	810,069
East South Central:						
Kentucky	1,504,431	819,043	218,714	16,408	450,266	1,491,816
Tennessee	1,832,307	950,487	253,629	19,662	608,529	1,387,938
Alabama	1,496,893	679,910	228,281	19,373	569,329	1,266,733
Mississippi	1,373,311	595,886	217,818	15,879	543,728	1,292,119
West South Central:						
Arkansas	1,378,091	699,946	266,185	15,574	396,386	1,518,947
Louisiana	850,562	384,450	196,955	14,527	254,630	1,327,605
Oklahoma	1,305,108	687,714	234,990	21,016	361,388	1,839,030
Texas	2,232,774	1,113,244	392,816	34,235	692,479	2,336,363
Mountain:						
Montana	167,060	69,509	33,975	3,000	60,576	99,261
Idaho	240,030	106,500	43,084	3,040	87,406	178,346
Wyoming	72,278	29,920	14,152	1,264	26,942	33,947
Colorado	449,866	200,027	79,658	7,166	163,015	179,294
New Mexico	87,906	44,360	16,249	1,502	25,795	45,409
Arizona	49,599	24,935	9,811	843	14,010	17,208
Utah	99,361	51,224	13,170	1,184	33,783	64,286
Nevada	26,645	11,898	4,095	521	10,131	23,160
Pacific:						
Washington	264,747	138,128	42,910	4,782	78,927	206,135
Oregon	266,778	140,656	38,472	4,219	83,431	217,577
California	909,272	452,856	138,868	12,581	304,967	766,551

SHEEP AND GOATS ON FARMS IN THE UNITED STATES.

WASHINGTON, D. C., *June 15, 1921.*

The Bureau of the Census, of the Department of Commerce, announce subject to correction, the following preliminary figures from the 1920 censu of agriculture for the United States, with comparative figures for 1910.

Sheep and goats on farms in the United States, 1920 and 1910.

Sheep on farms Jan. 1, 1920, total number	34,984,52
Lambs under 1 year of age	8,931,70
Ewes 1 year old and over	23,462,68
Rams 1 year old and over	826,37
Wethers 1 year old and over	1,494,03
Unclassified	269,72
Sheep on farms Apr. 15, 1910, total number	52,447,86
Spring lambs	12,803,81
Sheep born before Jan. 1, 1910	39,644,04
Goats on farms Jan. 1, 1920, total number	3,426,50
Kids under 1 year of age, raised for fleeces	530,76
Goats 1 year old and over, raised for fleeces	1,569,83
All other goats	1,325,90
Goats on farms Apr. 15, 1910	2,915,12

The number of sheep on farms in the United States on January 1, 1920 according to the Fourteenth Census, was 34,984,524. The number include 8,931,705 lambs under 1 year of age, 23,462,689 ewes 1 year old and over 826,373 rams 1 year old and over, and 1,494,032 wethers 1 year old and over.

The number of goats reported for the same date was 3,426,506, includin 530,763 kids under 1 year of age, raised for fleeces, 1,569,834 goats 1 year o age and over, raised for fleeces, and 1,325,909 other goats—goats and kids o all ages not kept for their fleeces.

COMPARISON WITH 1910.

The number of sheep reported at the census of 1910 was 52,447,861, but th change in the date of enumeration from April 15 in 1910 to January 1 in 192 must be taken into account in making any comparisons between the two years The 1920 census, taken as of January 1, was too early to include any spring lambs, while the 1910 census, taken as of April 15, included 12,803,815 lambs born between January 1 and April 15, 1910. On the other hand, the sheep enumerated as of January 1, 1920, included large numbers of animals destined to be slaughtered or marketed before April 15.

The relative importance of these two factors resulting from the change in the date of enumeration varies from State to State. In some States the number of lambs born during the first three and one-half months of the year would greatly exceed the number of sheep and older lambs slaughtered or sent to market, while in other States the number of sheep slaughtered during this period might almost offset the number of lambs born.

Taking as a basis of comparison the sheep reported in 1910, exclusive of spring lambs, the figures for the United States as a whole show a decrease of 4,659,522 sheep between 1910 and 1920. The actual decrease, however, after due allowance has been made for sheep slaughtered as well as for spring lambs, is considerably more than this, but less than the difference between the total number of sheep reported in 1910 and the number in 1920.

The total number of goats reported at the 1910 census was 2,915,125. As compared with this figure, the number of goats reported for 1920 represents a nominal increase of 511,381. The actual increase, after making allowance for the change in date of enumeration, is doubtless considerably less than that.

RANK OF IMPORTANT STATES.

Six States reported more than 2,000,000 sheep on farms for January 1, 1920, as follows: Texas, 2,552,412; California, 2,400,151; Idaho, 2,356,270; Ohio, 2,102,550; Montana, 2,082,919; and Oregon, 2,002,378.

The States reporting the largest numbers of goats were Texas, with 1,706,606; New Mexico, with 226,862; Arizona, with 161,124; Oregon, with 133,685; Arkansas, with 123,800; Missouri, with 121,012; and California, with 115,759. These seven States are also among those reporting the largest numbers of goats kept for fleeces.

Number of sheep and goats on farms in the United States, by geographic divisions and States: 1920 and 1910.

Division or State.	Sheep on farms Jan. 1, 1920. Total.[1]	Lambs under 1 year of age.	Ewes 1 year old and over.	Rams 1 year old and over.	Wethers 1 year old and over.	Sheep on farms Apr. 15, 1910.	Goats on farms Jan. 1, 1920. Total.	Kids under 1 year of age, raised for fleeces.	Goats 1 year old and over, raised for fleeces.	All other goats.	Goats on farms Apr. 15, 1910.
United States	34,984,524	8,931,705	23,462,689	826,373	1,494,032	52,447,861	3,426,506	530,763	1,569,834	1,325,909	2,915,125
Geographic divisions:											
New England	242,706	51,015	178,657	7,908	5,126	430,672	6,033	3,215	629	2,189	3,195
Middle Atlantic	1,100,864	262,612	728,752	31,483	78,017	1,844,057	7,064	373	733	5,958	7,588
East North Central	5,073,005	1,338,844	3,375,553	124,084	234,524	9,542,234	33,550	6,109	11,478	15,963	35,059
West North Central	4,940,408	1,532,471	3,190,395	109,495	72,410	5,065,009	150,011	17,914	58,181	73,916	113,215
South Atlantic	1,214,163	182,302	929,248	54,008	44,770	2,513,553	229,338	2,556	12,498	214,284	211,101
East South Central	1,318,349	195,095	1,017,315	63,786	42,153	2,496,221	325,698	8,918	19,984	296,796	198,647
West South Central	2,889,258	707,569	1,668,126	58,512	455,051	2,193,657	1,966,931	377,320	1,112,699	476,912	1,276,231
Mountain	13,179,463	3,341,964	9,017,221	270,663	319,312	22,770,291	451,607	67,257	193,174	191,176	737,644
Pacific	5,026,308	1,319,833	3,357,422	106,434	242,619	5,592,167	256,274	47,101	160,458	48,715	332,445
New England:											
Maine	119,471	23,660	90,049	3,967	1,795	206,434	476	49	62	365	582
New Hampshire	28,021	6,291	20,257	861	612	43,772	3,574	3,082	283	209	495
Vermont	62,756	12,940	47,088	1,895	833	118,551	124	26	61	37	261
Massachusetts	18,880	4,748	11,896	692	1,544	32,708	1,296	38	149	1,109	1,251
Rhode Island	2,736	684	1,814	104	134	6,789	116	6	22	88	106
Connecticut	10,842	2,692	7,553	389	208	22,418	447	14	52	381	500
Middle Atlantic:											
New York	578,726	152,124	400,402	14,000	12,200	930,300	2,580	127	308	2,145	3,475
New Jersey	10,471	2,129	7,773	383	186	30,683	642	12	15	615	574
Pennsylvania	511,667	108,359	320,577	17,100	65,631	883,074	3,842	234	410	3,198	3,539
East North Central:											
Ohio	2,102,550	536,023	1,336,429	42,623	187,475	3,909,162	4,027	88	398	3,541	5,370
Indiana	643,889	152,832	463,725	19,298	8,034	1,336,967	7,872	394	1,078	6,400	7,290
Illinois	639,819	183,902	420,122	20,766	15,029	1,059,846	10,553	1,781	4,840	3,932	12,435
Michigan	1,206,756	354,391	808,734	28,025	15,606	2,306,476	8,614	3,654	4,303	657	5,980
Wisconsin	479,991	111,696	346,543	13,372	8,380	929,783	2,484	192	859	1,433	4,875
West North Central:											
Minnesota	509,064	136,685	351,691	14,073	6,615	637,582	2,745	292	758	1,695	4,532
Iowa	1,092,095	359,754	691,288	26,121	14,932	1,145,549	10,526	443	1,808	8,275	20,664
Missouri	1,271,616	314,127	910,257	32,786	14,446	1,811,268	121,012	12,385	51,745	56,882	72,415
North Dakota	298,912	75,812	209,323	6,955	6,822	293,371	1,250	80	149	1,021	1,074

[1] The United States total includes 269,725 sheep not classified by age or sex. This number is distributed by States as follows: Nebraska, 35,637; Florida, 3,835; Idaho, 29,800; Wyoming, 62,850; Colorado, 54,022, and Arizona, 83,581.

Number of sheep and goats on farms in the United States, by geographic divisions and States: 1920 and 1910—Continued.

Division or State.	Sheep on farms Jan. 1, 1920. Total.	Lambs under 1 year of age.	Ewes 1 year old and over.	Rams 1 year old and over.	Wethers 1 year old and over.	Sheep on farms Apr. 15, 1910.	Goats on farms Jan. 1, 1920. Total.	Kids under 1 year of age, raised for fleeces.	Goats 1 year old and over, raised for fleeces.	All other goats.	Goats on farms Apr. 15, 1910.
West North Central—Continued.											
South Dakota	867,036	232,274	600,767	16,219	17,776	611,264	5,040	3,188	1,296	556	2,337
Nebraska	540,583	296,833	195,546	5,902	6,665	293,500	2,501	619	799	1,083	3,290
Kansas	361,102	116,986	231,523	7,439	5,154	272,475	6,937	907	1,626	4,404	8,847
South Atlantic:											
Delaware	3,220	703	2,331	129	57	7,806	91	11	51	29	88
Maryland	103,027	13,031	85,480	3,895	621	237,137	873	43	190	640	1,182
District of Columbia	10		8	2			7			7	
Virginia	345,151	41,061	286,070	15,656	2,364	804,873	9,126	556	1,847	6,723	7,327
West Virginia	509,831	82,858	392,790	15,722	18,461	910,360	7,003	1,202	3,341	2,460	5,748
North Carolina	90,556	17,459	65,562	5,214	2,321	214,473	23,912	129	290	23,493	35,019
South Carolina	24,294	4,627	16,293	1,954	1,420	37,559	31,952	47	175	31,730	24,750
Georgia	73,415	13,274	44,795	7,407	7,939	187,644	110,484	55	281	110,148	89,616
Florida	64,659	9,289	35,919	4,029	11,587	113,701	45,890	513	6,323	39,054	47,371
East South Central:											
Kentucky	707,845	88,452	583,997	28,864	6,532	1,363,013	35,045	1,298	4,409	29,338	29,809
Tennessee	364,196	59,922	281,774	17,770	4,730	795,033	73,228	7,139	13,782	52,307	43,560
Alabama	81,868	15,187	51,728	4,989	9,964	142,930	104,1[illegible]8	190	956	103,002	79,347
Mississippi	164,440	31,534	99,816	12,163	20,927	195,245	113,277	291	837	112,149	45,871
West South Central:											
Arkansas	100,159	22,352	68,882	5,104	3,821	144,189	123,800	4,713	15,121	103,966	58,294
Louisiana	129,816	22,522	81,658	7,271	18,365	178,287	91,249	165	904	90,180	57,102
Oklahoma	106,871	29,896	70,428	3,230	3,327	62,472	45,276	8,766	23,611	12,899	25,501
Texas	2,552,412	632,809	1,447,158	42,907	429,538	1,808,709	1,706,606	363,676	1,073,063	269,867	1,135,244
Mountain:											
Montana	2,082,919	509,400	1,468,732	32,736	72,051	5,380,746	1,282	184	601	497	5,045
Idaho	2,356,270	446,449	1,789,631	53,634	36,756	3,010,478	1,515	200	615	700	5,719
Wyoming	1,832,255	379,124	1,331,436	48,758	10,087	5,397,161	1,501	277	334	890	2,739
Colorado	1,813,255	844,568	876,416	25,084	13,165	1,426,214	28,688	1,398	4,995	22,295	31,611
New Mexico	1,640,475	375,958	1,172,525	28,345	63,647	3,346,984	226,862	34,655	97,478	94,729	412,050
Arizona	881,914	169,224	531,818	37,880	59,411	1,226,733	161,124	22,803	71,138	67,183	246,617
Utah	1,691,795	407,622	1,231,341	25,162	27,670	1,827,180	29,512	7,510	17,596	4,406	29,014
Nevada	880,580	209,619	615,322	19,064	36,575	1,154,795	1,123	230	417	476	4,849
Pacific:											
Washington	623,779	151,969	438,571	10,573	22,666	475,555	6,830	656	2,119	4,055	8,621
Oregon	2,002,378	551,313	1,302,142	32,941	115,982	2,699,135	133,685	25,867	99,699	8,119	185,411
California	2,400,151	616,551	1,610,709	62,920	103,971	2,417,477	115,759	20,578	58,640	36,541	138,413

An examination of the Statistical Abstract of the United States and of the reports of the Bureau of Markets from time to time will show that the estimates that are made of the number each year between census periods are generally excessive and necessarily are mere estimates. The most accurate figures, therefore, are those issued by the Bureau of the Census. Any deductions drawn from the estimates of the Bureau of Markets from the years closest to the census dates should at least be modified accordingly. The estimates are doubtless the best that can be made from the data obtainable, and what I say is not said in a spirit of criticism, but merely to point out the fact.

The figures obtained from the markets as to the number inspected at the slaughtering establishments under Government inspection afford the best barometer of the live-stock supply converted into meat.

Seventh. I submit herewith a statement taken from the Interstate Commerce Commission's summary of freight commodities statistics of Class I roads for the quarter ended March 31, 1921, showing the revenue freight originating and the revenue freight carried in the western district by Class I roads, by number of carloads and the number of tons of the different commodities. As explained, this shows the importance of the live-stock business. It should be stated in this connection that the ton-miles are not given, because this record is not now kept in the reports given to the Interstate Commerce Commission. The statement does not therefore show the relative services performed, which, by reason of the longer distance movement of live stock than the average, is greater than the relative number of tons and carloads.

As stated by me in oral argument, the agricultural producer always pays the freight on his articles deducted from the account sales, and all of the commodities which move to him as a matter of common knowledge come with the freight added. This table will enable one to observe, therefore, the quantities that are moved where the freight is added and which the consumer has to pay. This would include agricultural implements, vehicles, and all of the other commodities which the farmer consumes. From this it results that the increased rate of freight during and since the war is a double burden upon agriculture. The statement is as follows:

Summary of freight commodity statistics of Class I roads for the quarter ended Mar. 31, 1921.

[Class I roads are those having annual operating revenues above $1,000,000, western district; average number of miles of road operated, 131,751.81.]

Commodity.	Revenue freight originating on respondent's road.		Total revenue freight carried.	
	Number of carloads.	Number of tons (2,000 pounds).	Number of carloads.	Number of tons (2,000 pounds).
PRODUCTS OF AGRICULTURE.				
Wheat	109,642	4,393,801	182,341	7,264,858
Corn	93,481	3,624,976	133,494	5,017,303
Oats	29,644	994,751	41,810	1,390,272
Other grain	27,430	918,333	42,126	1,369,981
Flour and meal	57,566	1,615,604	84,736	2,399,542
Other mill products	42,086	1,031,314	61,971	1,518,258
Hay, straw, and alfalfa	71,556	925,568	96,735	1,257,284
Tobacco	1,513	21,102	2,417	36,115
Cotton	37,810	517,416	71,086	1,015,937
Cotton seed and products, except oil	32,834	797,341	46,367	1,136,390
Citrus fruits	12,588	220,175	49,969	864,642
Other fresh fruits	11,172	178,058	34,795	530,157
Potatoes	26,097	475,775	56,774	1,032,422
Other fresh vegetables	13,122	163,200	47,501	606,437
Dried fruits and vegetables	3,932	111,216	11,765	329,595
Other products of agriculture	22,905	681,601	38,343	1,022,180
Total	593,378	16,670,231	1,002,230	26,791,373
PRODUCTS OF ANIMALS.				
Horses and mules	7,914	91,085	10,661	123,701
Cattle and calves	121,906	1,421,335	144,870	1,696,136
Sheep and goats	16,834	167,316	23,883	245,881
Hogs	122,502	1,137,905	136,335	1,270,975
Fresh meats	30,886	401,656	34,939	457,393
Other packing house products	13,228	229,663	18,501	318,761

Summary of freight commodity statistics of Class I roads for the quarter ende Mar. 31, 1921—Continued.

[Class I roads are those having annual operating revenues above $1,000,000, western district; average num ber of miles of road operated, 131,751.81.]

Commodity	Revenue freight originating on respondent's road.		Total revenue freight carried.	
	Number of carloads.	Number of tons (2,000 pounds).	Number of carloads.	Number o tons (2,00 pounds).
PRODUCTS OF ANIMALS—continued.				
Poultry	2,967	33,550	4,361	48,79
Eggs	6,613	74,245	9,260	107,17
Butter and cheese	3,009	38,631	4,443	59,78
Wool	521	7,812	1,442	25,07
Hides and leather	2,495	59,013	4,218	99,00
Other products of animals	3,713	93,759	7,267	176,45
Total	332,588	3,755,970	400,180	4,629,14
PRODUCTS OF MINES.				
Anthracite coal	6,585	251,207	10,973	427,77
Bituminous coal	266,970	11,856,137	455,601	20,337,64
Coke	8,274	254,462	16,339	506,50
Iron ore	7,897	397,709	12,427	646,22
Other ores and concentrates	30,622	1,657,184	43,457	2,223,96
Base bullion and matte	1,865	80,193	5,088	216,26
Clay, gravel, sand, and stone	118,338	5,437,231	154,237	7,00[illegible],35
Crude petroleum	28,198	1,022,558	56,957	2,037,20
Asphaltum	1,511	51,861	3,170	110,28
Salt	8,891	231,295	16,866	445,38
Other products of mines	3,015	130,618	13,246	515,02
Total	482,166	21,370,455	788,361	34,496,61
PRODUCTS OF FORESTS.				
Logs, posts, poles, and cordwood	153,105	4,812,853	170,892	5,326,97
Ties	22,121	708,030	34,883	1,133,52
Pulp wood	59,866	2,069,364	83,930	2,890,64
Lumber, timber, box shooks, staves, and headings	112,073	3,207,322	254,663	7,286,321
Other products of forests	6,291	137,543	10,203	226,17
Total	353,456	10,935,112	554,571	16,863,643
MANUFACTURES AND MISCELLANEOUS.				
Refined petroleum and its products	124,830	3,581,452	240,595	6,847,600
Vegetable oils	5,082	149,828	10,571	313,163
Sugar, sirup, glucose, and molasses	14,308	436,756	32,681	978,433
Boats and vessel supplies	55	851	191	4,476
Iron, pig and bloom	1,909	85,311	4,835	217,461
Rails and fastenings	2,175	85,249	11,669	447,55
Bar and sheet iron, structural iron, and iron pipe	13,466	409,330	63,401	2,219,49
Other metals, pig, bar, and sheet	2,854	98,399	9,753	369,932
Castings, machinery, and boilers	10,077	195,219	25,447	509,112
Cement	20,420	773,218	33,561	1,271,224
Brick and artificial stone	16,874	582,702	26,823	933,191
Lime and plaster	7,194	181,327	12,942	338,945
Sewer pipe and draintile	8,121	150,697	11,564	218,985
Agricultural implements and vehicles other than automobiles	13,953	206,496	26,573	415,183
Automobiles and autotrucks	11,302	80,598	32,804	252,180
Household goods and secondhand furniture	21,860	234,879	35,642	384,869
Furniture (new)	3,282	34,239	7,939	83,494
Beverages	3,328	67,486	5,208	104,677
Ice	23,798	725,550	26,448	810,272
Fertilizers (all kinds)	7,479	193,812	10,250	262,878
Paper, printed matter, and books	2,979	74,290	9,909	249,484
Chemicals and explosives	8,109	255,737	15,821	487,061
Textiles	672	11,975	2,351	47,044
Canned goods (all canned food products)	9,603	224,292	19,597	476,462
Other manufactures and miscellaneous	94,447	2,150,658	183,956	4,149,584
Total	428,177	10,990,351	860,531	22,[illegible]2,761
Grand total, carload traffic	2,199,765	63,722,119	3,605,873	105,173,540
Merchandise—all less than carload freight		3,102,595		4,405,31
Grand total, carload and less than carload traffic		66,824,714		109,578,8[illegible]

The CHAIRMAN. Mr. Mercer, we will be glad to hear from you.

STATEMENT OF MR. J. H. MERCER, FARMER, TOPEKA, KANS.

The CHAIRMAN. Mr. Mercer, give your name to the stenographer for the benefit of the record, and your residence and occupation.

Mr. MERCER. J. H. Mercer, Topeka, Kans. Occupation, farmer. I am here as a representative of the National Live Stock Shippers' League and also the Kansas Live Stock Association, which is a stock-farmers' organization of our State of 15,000 members. What little I will call the commission's attention to will largely relate to the live-stock situation, it being so related, however, to all agricultural matters that it is realy representing the entire agricultural situation. Of course, I will not go into matters as to transportation, like Judge Cowan has, but I want to tell you my views affecting the agricultural and live-stock industries of our country, and especially of our western country.

I am not going to discuss at length the freight-rate question. We came out of the war with a railroad situation, as presented by the carriers, in a deplorable condition. That propaganda was spread throughout the entire country. I happened to be present when the railroad heads appeared before the committee of the Senate and illustrated that situation; and by reason of that situation the present law was passed in response to the appeal of the railroad heads for help. I recall a statement then made that if the Government did not come to the aid of the carriers that the transportation industry of this country would break down; that their credit was gone and they needed capital. And I remember very distinctly their claim that they needed money with which to build 800,000 freight cars with which to transport the traffic of this country.

Now, gentlemen, this Congress did come to their relief and passed a law which, to my mind, is bad.

I do not believe that the railroads of this country have any more right to come to Congress and ask it to guarantee them an earning on their business than the farmer of this country has. I am not here to-day appealing to you to do that, although I know the farmer is in a much worse condition to-day than the railroads of the country were a year ago. We do not ask that. We do ask, however, that you undo some things that have been done, and the law referred to by Judge Cowan is one of them.

I would much rather see this Congress abolish the Interstate Commerce Commission law and do away with it entirely and turn the railroads of this country loose to go back to where they were before there ever was an Interstate Commerce Commission than to see the situation go on as it is to-day. The commission's hands are tied. There is no question about that. The commission held hearings in a case pending before them relating to the reduction of rates on live stock. The case was heard at Denver and at Chicago. The examiner who heard that case recommended to the commission that the rates be reduced. The industry of the country is still suffering, as it was at that time, but there has been nothing done, nor, in my judgment will there be anything done unless the carriers themselves concede to the reduction being made, because it is no

trouble under the present law for them to show that they are no[t] making anywhere near the earnings on the business that the law permits them to make. So I say that that is worth while being considered. I want to bring to your attention, if you do not already know it, that instead of wanting 800,000 cars to move the traffic o[f] this country, I presume there are that many cars setting idle on th[e] side tracks of the carriers in the United States, to-day.

That is about all I want to say about the railroad situation Although I want to illustrate this by saying that at the time th[e] increase of rates was allowed a year ago, and to concede, for th[e] sake of argument, that they were reasonable then, which we contended that they were not, they are unreasonable to-day as relatin[g] to agricultural products, because the value of agricultural product[s] have been cut more than half in two since that time.

A year ago when these rates went into effect, a certain brand o[f] cattle, known as the Belle Brand of cattle from Texas, that wer[e] shipped in to our State for grazing purposes, sold on the market a[t] Kansas City for $15.25 a hundred on the 22d day of July. On th[e] 26th day of July of this year that same identical brand of cattle owned by Landergin Bros. of Amarillo, Tex., grazed in the sam[e] pastures, weighing about 70 pounds more to the head, sold for $7.5[0] a head. So you may see what the reduction is in the price of mea[t] animals.

Furthermore, the consuming public is not getting anything lik[e] the full measure of the benefits of the terrific onslaught in reduc[-] tion in prices that the farmer is undergoing.

Representative TEN EYCK. What is the cost of transportin[g] those cattle on the railroad?

Mr. MERCER. Do you mean a hundred?

Representative TEN EYCK. Yes, per hundred.

Mr. MERCER. Well, I will give you the cost from the shipping poin[t] in Kansas to the market. I will give it on the minimum weight of [a] car of 22,000 pounds. From Eureka, Kans., where these cattle wer[e] loaded, to the Kansas City market the rate, plus the war tax, is $48.72 but prior to the advances $26.75 per car.

Representative TEN EYCK. On the car?

Mr. MERCER. A car; that is, plus the war tax. Of course, the wa[r] tax is 3 per cent.

Representative TEN EYCK. Well, that carload contains 11 tons and costs you $48.72 transportation charge. That is very small in proportion to the amount of shrinkage, from $15 a hundred to $7.50 a hundred, isn't it?

Mr. MERCER. Do you mean as to the value of these cattle?

Representative TEN EYCK. Yes.

Mr. MERCER. We are not here contending that the whole thing lies in the railroad rates of the country. I said that I was not going to discuss it from that viewpoint, Congressman.

Representative TEN EYCK. Mind you, perhaps your railroad rate ought to be decreased; but the question that the commission is interested in is where the difficulty in connection with this matter lies and why this situation exists and what we can do to readjust conditions.

Mr. MERCER. Transportation costs is one of the great elements that enters into it, you understand. The same cattle had paid two rates

from the breeding country of the Southwest—first, to the Amarillo country, as was illustrated here by Judge Cowan, and then on to Kansas, and from Kansas to the market. Now, probably the rates on those cattle, all told, from the starting point to the market would be around $11 a head.

Understand, the cost of production enters into the live stock. If the net earnings on the business could be maintained along with the increase of freight rates that would be all that the producer could ask for. And what I wanted to illustrate in bringing that to your attention was this, that though that rate was reasonable at the time it was put into effect it is unreasonable now because of the great slump in values.

We can not understand why the prices of agricultural products of this country have been reduced the way they have when there is no overproduction in this country with live stock. But everything produced on the farm has been cut in two in price and more.

Now, we think that Congress could do something along this line for relief. And let me illustrate what I mean by this. I don't think that Congress should enter into the fixing of prices at all. I am opposed to anything of that kind, but we think that some sort of a propaganda should be sent out over the country similar to that which was sent out by the Food Administration, as to the necessities of the country, as to what the people should do, and as to what we should produce. When the propaganda was sent out during the war it was responded to in almost every particular.

Now, we think that the most unfortunate thing that befell the farmers of the country was the fact that the Food Administration ceased to function when the war closed. The propaganda that was started here in Washington for lower living costs amounts to nothing, gentlemen, only the lowering of the prices of the farmers' product. I challenge anyone to show me where living costs, in the West, at least—I am not conversant altogether with the eastern situation—have been reduced, where any of the necessary living costs have been reduced in any manner since the armistice was signed.

Now, I heard the discussion this morning by the lady as to cost of living. Gentlemen, the retail business of this country is holding its prices up on the war level. Why? They are doing it to save themselves, because they are doing no business. The people out our way are not buying anything except what they have to right now. And why? Because you take away the purchasing power of our farmers, you destroy business, and that is what is causing paralysis which exists in business all over that western country, and, I presume, up this way, too.

Some people have said the farmer "made tremendous profits during the war." We will admit they made some profits during the war, but the cost of production followed right along with their prices. Now, that cost of production is remaining up in a measure to-day, and especially everything that has to do with fixed charges. They are much the same to-day as they were during the war. And in connection with freight rates, higher now than before and during the war, and there are other things that are higher now also.

With regard to yardage and commission charges relating to live stock, Congress can do something to help by regulation. We do not

want to see industries of this country destroyed. No one wants that. But I want to say to you, gentlemen, that unless something is done to stimulate the live-stock industry in the United States you will see less live stock in this country in the next two years than any of you men who are anywhere near my age have ever seen, because the men engaged in that industry can not keep it up. They are having to quit. Some one else will come in, it is true, but not in sufficient numbers to keep up sufficient production for the people, and the poor people of this country can not eat meat when it will be too scarce and the price too high.

The rate of interest in our country has increased about 30 to 35 per cent since the close of the war. We used to borrow plenty of money at 6½ and 7 per cent. I have spent my entire life, up until a few years ago, farming and raising and feeding hogs and cattle. And I have borrowed lots of money. I borrowed money at around 6½ and 7 per cent. The prevailing rate in our country was from 6 to 8 per cent prior to the war. Many of our stockmen are trying to save themselves to-day and are paying 10 per cent, and commissions besides, in order to get the loan. Now, then, if Congress could do something to help our banks to provide some means, by authorizing the War Finance Corporation to function in that capacity, it will be a benefit. But this relief wants to reach the banks in communities where the industry is carried on.

Now, you take a man who has a cowherd, for instance. If that man is forced to liquidate and pay his debts to-day it would entirely wipe out his business, whereas if that man could be extended credit even though that security will not be in line with what might be classed as sound by some bankers, in a few years' time, gentlemen, this man will be back on his feet again.

All live-stock prices to-day are below the prices of a general average of 10 years previous to the war, excepting hogs. Prices of hogs in the last two or three months have advanced about $2.50 a hundred, and that puts the price a little above the average of a 10-year period previous to the war.

The price illustrated just a moment ago is indicative of every single, solitary kind of live stock that is sold on the market. Especially the common kind is considerably more than cut in two.

Take what we call canner cows, that really ought to be kept on the farm yet a while, but are forced to be shipped because our people have got to have some money. I have seen some sold on the Kansas City and the Wichita market in the last 60 days for a cent a pound, hardly enough to pay the freight.

The CHAIRMAN. Mr. Mercer, are you under the impression that generally speaking the cattle receipts are now abnormally large?

Mr. MERCER. No, sir, Mr. Chairman, the receipts at seven or eight of our packing markets which reflect the situation in this country, are about 800,000 head less during the seven months' period of this year than the same period last year, and last year there was a considerable reduction in receipts under the year previous.

The CHAIRMAN. Well, does that indicate that people have been forced to sell their cattle to get credit to carry them?

Mr. MERCER. Absolutely so. There are two reasons for it, Mr. Chairman. One is that cattle can be liquidated into cash. You can send cattle to market and get the cash for them. Farmers have to have something to live on and to pay their taxes with and other debts.

The CHAIRMAN. Well, if receipts have fallen off, that does not indicate that anybody has been forced to sell cattle in larger quantities than normally.

Mr. MERCER. Well, Mr. Chairman, it indicates that they are quitting the business. That is what I want to illustrate to you. They are quitting the business. Now, take the calf receipts. Go back over a period of years and take the supply of calves at markets, the normal supply of calves that were shipped from dairy cattle, etc. In the last two years the shipment of calves to market has more than doubled. That indicates that they are doing away with their herds because they can not keep them, they can not hold them.

The CHAIRMAN. Well, they were not doing away with their herds in 1919, were they?

Mr. MERCER. They commenced to, yes, sir. The prices of cattle commenced to go down in June of 1919.

Senator CAPPER. Are the breeding animals still going to market?

Mr. MERCER. Oh, yes; lots of them. Yes, Senator, lots of them are going to market. It depends, of course, a good deal on the banker, whether he can tide the cattleman over with a loan. The cattlemen, and especially the large producers of cattle, are very heavy borrowers. And if a banker has to have his money, why the cattleman is compelled to make some arrangement, either to get his money some place else, or ship his cattle.

I do not want to leave the impression with you gentlemen that there is very much of that being done right now. I think that there is a tendency throughout the entire western country to help save these herds as much as possible, and I think the banks are making every effort they can. In fact, I know the banks are taking this position, which they have to take to save themselves. There are many of these herds on which they hold mortgages, that would not pay the debt, and there is nothing back of it to pay the debt, so the banks are doing all they can to hold them and let them work out, which is the only thing for them to do. If they were forced to liquidate there would be a good many banks, in my judgment, that would have to close their doors; that is, if they complied strictly with the laws.

Senator CAPPER. Mr. Mercer, aside from the present emergency, I would like to ask you what your view is as to the need of an intermediate credit system, between the short-time commercial paper we now have, and the long-time farm loans—an intermediate credit system that will provide funds for the farmer and the stockman for a period of one, two, and three years?

Mr. MERCER. Well, it is needed, Senator, very much. It is needed now more than ever before to take care of the breeding cattle especially. Loans are made by the banks, under the banking rules and laws, for about a six months' period. Well, it takes about three years to produce a steer. We will say it takes an average of three years. Of course when a man starts a cow herd he probably, to begin with at least, has a pretty fair understanding with his banker or the loan agent that he will extend that paper.

Now, then, sometimes it has been known, and especially in the latter part of 1919, which you referred to, that thousands of herds were shipped to market; they were absolutely compelled to ship them to

market to liquidate and raise money with which to meet the debt. The banker in ordinary times renews that paper. But now we have largely to appeal to our reserve system, whereas it used to be that we had corresponding loan companies in the East that took care of this paper, but now the reserve bank handles these loans and might call them. They must consider them good. I don't know how extensively they are doing it now, but I know they did do it a year or so ago in our district. I don't think they are doing much of that now, because they probably have got their paper better secured than they had when this collapse came. But this herd may not be worth the purchase price now. For instance, gentlemen, it used to be the custom if a man had a fair credit and owned a farm, or had a good many other assets, that he could borrow the purchase price of his cattle from a bank. I borrowed the purchase price of many herds of cattle myself from the banker that I did business with.

Well, now then, in 1919, if I had gone out and borrowed the purchase price of a herd of cows I would have had to pay about $100 to $125 a head for them, on the general average of an ordinary grade breeding herd. To-day those cattle will sell from $50 to $65 a head; that is, the best class. So you see the collapse that has come in the value of those cattle has destroyed all the equity that I might have had in them. But, now then, if that banker will hold on to that loan—carry that man on—with the increase in the herd, and because of his activity and his determination to go through with it and come out, that loan will be good after a while, but now it might not be.

The CHAIRMAN. Do you think that policy is being generally followed by the bankers now?

Mr. MERCER. I think they are doing everything they can; yes. They are out in the western country. I think the loan organizations and the bankers are using every effort they can to help the situation out there. The only great trouble, gentlemen, in our country, and in the Southwest, that I am familiar with, is the fact that the bankers have not the money; and, as I say, the reserve system's rules are, we think, pretty rigid.

For instance, I saw a statement here not long ago going out from our district which said, "You are to make no loans on agriculture unless you take a property statement—a rigid, careful property statement—of all the borrower has, on all loans from $500 up." Now, then, I don't know how familiar you men are with the farmer's life, but I want to say to you that that pretty near exempts him from borrowing money from a bank that has to use the reserve bank for rediscounting small loans.

The CHAIRMAN. I would like to see a copy of that circular, because it is my impression that the rules of the Federal Reserve Board do not require a property statement in case of a loan which amounts to less than $5,000.

Mr. MERCER. I said from $5,000 up.

The CHAIRMAN. I thought you said $500.

Mr. MERCER. Yes; I meant from $500 up. Yes, sir; $500 up.

Representative TEN EYCK. Is it $500 or $5,000?

Mr. MERCER. No; I meant $500.

The CHAIRMAN. I would like to see a copy of that circular.

Mr. MERCER. I will get it, Mr. Chairman, and send it to you. I do not have it with me, but I will get it and send it to you. They

may have changed it, however, by this time; but I saw and read the circular.

Senator CAPPER. Mr. Mercer, have you had any suggestions from the bankers out in that country as to how the present credit situation could be bettered?

Mr. MERCER. Well, the only suggestion, Senator, that I have had from the bankers is this, that if they could provide some means to get cheap money, without such rigid requirement as to securities, and get help through that channel, they could handle the situation; and I think that is really the solution of it, so far as money is concerned.

The bankers of most communities are the progressive business men of that community and have the welfare and the progress of the community at heart and can take care of the local situation much better than can those who are far away from the community. Of course, they can not handle the community affairs, so far as the quantity of money is concerned, because the banks are limited, and especially the country banks are usually of small capitalization. They have got to have some place to send this paper.

I recall the bank out at Sitka, Kans., with which you are familiar, Senator Capper. That is a little shipping station out there of a few hundred people. There is a lot of cattle and wheat raised out there, and also a lot of other grain. The president of that bank told me that he had obligated himself on paper, by indorsing, to the extent of two or three hundred thousand dollars, outside of his bank, and that he had even mortgaged his own ranch in order to get funds to loan and take care of the people of his community, the citizens around there—the smaller farmer that could not go out and borrow money because he did not have the assets to put up for security. And that is indicative of the situation in a lot of western localities where they are far out from the central banks. And this bank, gentlemen, can only go so far.

One of the very largest bankers in Kansas City told me the other day that he had mortgaged his ranch—a very large one—for a good many thousand dollars; and he said, "I mortgaged it to get funds to take care of lifelong customers of this institution. They have not got the credit now, nor have they the assets back of them to make the loans that they need." And that is the situation, gentlemen.

Representative TEN EYCK. I deduce from what you say that credit to-day is not so much needed in the cattle industry to promote sales, or even for foreign trade, as it is to give to the cattle owners—the raisers of cattle—sufficient funds to hold their cattle so as to keep in the business. Is that your idea?

Mr. MERCER. That is my idea.

The CHAIRMAN. In connection with the statement that you made a moment ago with reference to the requirement of the Federal reserve banks, that a financial statement accompany the loan where it is over $500, I want to read the regulation of the Federal Reserve Board, which requires among other things the following:

A recent financial statement of the borrower must be on file with the member bank in all cases. Except * * * if * * * the aggregate of the obligations of the borrower rediscounted and offered for rediscount at the Federal reserve bank by the member bank is less than a sum equal to 10 per cent of the paid-in capital of the member bank and is less than $5,000.

Now, the effect of that apparently would be to require a financial statement only in such cases where the amount borrowed by the cattleman from the member was in excess either of 10 per cent of the bank's paid-in capital or in excess of $5,000.

Mr. MERCER. I understand, Mr. Chairman, that is all right; but isn't also authority given the district managers and governors to install any sort of rules they might deem advisable as to the conduct of their own institutions?

The CHAIRMAN. Well, I think it would be rather unusual for a Federal reserve bank to make any different requirement.

Mr. MERCER. Well, I will send you the letter and you can read it for youreelf, Mr. Chairman. I read the letter and I know where I can get it, and it was an instruction to a member bank of the tenth reserve district. It was a few months ago that I read this letter. And this banker told me then:

> Now, that eliminates us handling paper of farmers that we know, because they can not comply with that. they can not give such property statement. They are already borrowed up to their capacity. And the statement would show that that loan was not justifiable under the regulation.

I don't know whether that prevails in other districts or not. You understand that we feel that the Federal reserve system is all right if the bank conducted for the benefit of the community in which it is located. We do feel that there has been too much of a tendency to drift this money eastward. The Government itself does that, no doubt unintentionally, but it has happened, and I will illustrate to you what I mean by that. They borrow money and they loan money to the Government, and in that way have drawn throusands and thousands of dollars from territories that needed the money.

For instance the rate of time deposit money is from 3 to 4 and maybe 4½ per cent in some instances. The Government issued a call for a loan, and they issued certificates guaranteeing them 6 per cent. We know that there were very few business men but what go and draw out their time deposits from the bank and loan it to the Government. And by doing that they draw the deposit from that institution, and the money from that community.

The CHAIRMAN. Well, that is a perfectly sound surmise, but it does not jibe with the apparent fact that the time deposits of the banks have during all of this period increased and are still increasing, in spite of the fall of demand deposits.

Mr. MERCER. They are not in our country. Deposits are not increasing anywhere in the West, I do not believe. Where are they increasing in the West, west of Chicago?

The CHAIRMAN. Well, I think they are increasing everywhere.

Mr. MERCER. Do you mean that time deposits are increasing in the banks all over this country?

The CHAIRMAN. Time deposits, yes; take the country over, continue to increase, notwithstanding the fall in the demand deposits that has taken place during the last six months.

Mr. MERCER. Well, I have not looked up any data on it lately.

Representative TEN EYCK. What reserve bank is this you are speaking of?

Mr. MERCER. The tenth reserve district. Kansas City.

Representative TEN EYCK. That can be ascertained.

Mr. MERCER. I want to say to you, gentlemen, that there should be some consideration given to this by Congress in some way. I don't know whether you realize the situation or not. I want to say to you that men are preparing now—I am speaking now of men of means, men that own their land, men that have not lost their land but have lost everything else—to make arrangements to let their land lay idle. Why? Because they have lost their surplus money. I could name a dozen men that Senator Capper would know who have told me that they do not intend to turn a furrow this fall, to put in a bushel of wheat, or farm in any particular next year; that they have already taken off their men and put their machinery and things away and will let their land rest a year or so, until this thing readjusts itself. That is going to produce a shortage in this country, and, naturally, you are going to get a condition of higher living costs. So anything that can be done to stimulate the situation should be done. The values of the product of the farms should be brought to somewhere near the level of what other things are, and unless that is done we are going to see some bad conditions in this country.

You can not ship certain agricultural products at all to-day. The overhead expense in moving these products to market is beyond what the products will bring. I know of a thousand bushels of oats which were offered in our State the other day, and not very far from the market, for shipment. The agent, under a rule of the railroad company, required the advance of the freight. And the farmer got to figuring what his oats would bring in the market, and he figured up the freight rate and the commissions and other items that remain just what they were during the war, and he concluded to take 10 cents a bushel for his oats at home and sold them at home and left them at home. They were not shipped. And it is questionable, gentlemen, if the oats had been shipped, whether they would have paid the freight and the overhead expenses.

Now, that same rule applies to corn. Corn districts that produce more corn than they can take care of can not ship the corn to any place. The people can not pay the price to feed it, and the result is that it is going to waste and will go to waste. I don't think I am exaggerating at all when I say that there have been millions of tons of hay last year that have gone to waste in the State of Kansas because they could not move it. The price that they were receiving for products such as hay, second-grade grain, and things of that kind were so low that after paying the commission charges and the freight and storage charges, etc., it would not pay the cost of shipment. And the result is that it is wasted.

I know of one man that went out into northwestern Kansas, where we raise a lot of alfalfa, to buy alfalfa to ship to Illinois, where they do not raise much hay. He could buy alfalfa out there for $3 or $4—for pretty near any price. But when he came to bale it and put it on board the cars and ship it to the point in Illinois where they wanted it, it would cost the customer over there from $22 to $27 a ton after everything was paid. So the hay was not sold. And the same thing is true in eastern Colorado and all through those Northwestern States.

Now, gentlemen, that is not picturing the conditions any worse than they are, because it is the situation as it is at present. And as I said

in the beginning of my statement, we are not here asking you to guarantee any earnings on this business, although we have just as much right to come to this Congress and plead for a guaranty for a reasonable earning on the business as any other industry in the world. But we do ask that there be something done in improving other conditions so as to help this industry, and if you do not it is going to perish.

If there are any questions that you wish to ask, I will be glad to give you any information I can. I have gone over this hurriedly. I have not pictured this situation any worse than it is, and our farmers are very, very much discouraged. They are saying very little, but they do not know why they should undergo such conditions when they have to walk up here to the store and pay such high prices for machinery, or things of that kind.

The CHAIRMAN. We will now hear from Mr. A. C. Williams, of Fort Worth, Tex.

STATEMENT OF MR. A. C. WILLIAMS, ASSISTANT TO THE PRESIDENT OF THE TEXAS & SOUTHWESTERN CATTLE RAISERS' ASSOCIATION, FORT WORTH, TEX.

Mr. WILLIAMS. I try to be an optimist at all times, but, frankly, gentlemen, I can see little ground for optimism just at this time regarding the future of the cattle business. I had not expected to have the privilege of appearing before this committee, and therefore have no prepared statement to file. I desire to refer briefly to some of the more important problems confronting the cattle raisers of the Southwest.

The organization which I represent, the Texas & Southwestern Cattle Raisers' Association, was organized in 1877. Among its membership are the leading stockmen of Texas, Oklahoma, New Mexico, Colorado, Arizona, and Kansas. This territory is often referred to as the "live-stock breeding ground of the United States," and does furnish a large per cent of the steers that go to the pastures and feed lots of the Northwest, Middle West, and great corn-producing States. Thus it will be seen that the live-stock industry of the Southwest is the most important factor in the Nation's meat supply.

A striking feature of the movement of cattle in Texas and adjoining States during the past few months has been the sacrifice sale and slaughter of valuable breeding herds that represented the work of a lifetime of careful breeding and herd management. That sacrifice has been caused by the inability of the owners of the herds to secure adequate loans through the usual channels. You are perhaps not familiar with the fact that the average stockman operates on such a large scale and is forced to borrow such large sums in times like we are now passing through that the capital and surplus of his home bank is not large enough to permit it to meet his needs. He must therefore go to the large banks and loan companies at the central markets like Fort Worth, Kansas City, St. Joseph, St. Louis, and Chicago for a loan. For several months these large institutions have been holding practically all of their borrowers to bare living expenses and have declined to make new loans. Thus many men who have ample security and ordinarily do not require large loans find it dif

ficult to secure funds needed to properly conduct their business, and are frequently forced to sacrifice valuable breeding stock and immature calves and steers.

The situation has become so critical that our executive committee at its recent meeting appointed a committee to come to Washington and endeavor to secure some measure of financial aid through the War Finance Corporation. In order to conserve the breeding herds of the Southwest, which were threatened by a drought and financial stringency, the War Corporation in 1918 established a cattle loan agency at Dallas, Tex., to make loans, through the banks or direct, on breeding herds where the owners were unable to secure funds through the usual channels. It is the consensus of opinion that conditions at this time warrant a revival of that plan. Since arrival in Washington we have been convinced that some measure of relief can come through the Kellogg bill if that measure is properly and liberally administered. Fearing that any fight to secure an amendment to permit direct loans might delay the passage of the measure until after the summer recess of Congress, and believing that its early passage may prove of great assistance to the agricultural interests of the country, we have concluded not to insist upon the amendment at this time. I desire to say, however, that I do not believe the measure of relief needed will come through any agency which does not provide a means of making direct loans to worthy men who have ample security and are unable because of the present stringency to secure needed loans through the usual channels.

To prove that this sacrifice of breeding herds will, if continued, seriously affect the future meat supply of the Nation, I sent a questionnaire to prominent stockmen in touch with the situation asking them to give certain information. I ask them first whether it was true that the owners of breeding herds were finding it difficult to secure loans to help carry on their business, and the answer without exception was "Yes." Their replies indicated that there has been a heavy forced sale of valuable breeding cattle and immature calves and steers that are needed on the range to consume the surplus of grass and forage that will be wasted. I am convinced by information in our office and replies to this questionnaire that the number of cattle in Texas and adjoining States at this time, compared with the average for the past six years, represents a shortage of approximately 30 per cent on breeding cows, 50 per cent on aged steers—we refer to a steer that is 3 years old or over as an aged steer—33⅓ per cent on 2-year-old steers, 25 per cent on yearling steers, and there will be a much greater shortage of calves if the present heavy movement continues. The records at the Fort Worth market show that while there has been a large decrease in receipt of grown cattle during the first seven months of this year there has been an increase of about 35 per cent in receipts of calves.

The CHAIRMAN. Does that allow for seasonal fluctuation? My recollection is that the receipts of calves vary widely from year to year at certain periods of the year.

Mr. WILLIAMS. Range conditions in our section have been unusually good this year, which under normal conditions would mean that many stockmen would hold their calves to consume the surplus of grass and enhance in value. The movement indicates forced

liquidation. Even men who happen to be fortunate enough not to have excessive loans at the banks—and there are few of them, are forced to ship their calves to get money for operating expenses.

There is not the slightest doubt in my mind that there has been a heavy forced liquidation of breeding cattle from our territory. A man came to my office last week and told me that he had a loan with a large bank in Dallas for in the neighborhood of $50,000, secured by cattle worth on the basis of present values around $80,000 to $100,000. Notwithstanding the fact that the bank could take that loan to the Federal reserve bank, only about three blocks away, and discount it, they urged him to pay. Their only excuse was that they wanted to lighten up their loans, and the best way to do so was to collect some of the largest ones. Now unless that man can place his loan elsewhere, and that will be very hard to do, he may be forced to sacrifice his cattle. When a man is forced to ship immature cattle to market, it not only hurts him financially, but it has a direct effect upon the value of all other cattle on the market that day.

The CHAIRMAN. It is quite possible to get an entirely erroneous impression from the citation of individual cases. How prevalent do you think the citation to which you refer is?

Mr. WILLIAMS. I know of numerous other cases just like the one I spoke of. It is so prevalent that it has already resulted in a great sacrifice of breeding and immature cattle from our territory.

The CHAIRMAN. I do not question your statement, but how do you reconcile the proposition that men are being forced to sell cattle that are not immature, with the fact that you have stated that the receipts are less than normal?

Mr. WILLIAMS. The receipts are less than normal because the supply of cattle in the country is less than normal. The receipts at 69 leading markets of the United States for the first six months of this year are approximately one and a quarter million below the corresponding period of last year. The receipts last year were below the year before. According to your line of reasoning that would mean I am wrong.

Remember this, that in 1918 and 1919 certain southwestern and northwestern cattle raising States suffered from severe droughts, which is forced heavy liquidation of all classes of cattle from those sections. The drought in the Northwest was followed by severe winter weather which caused the shipment of additional thousands of cattle to market which would have been kept on the ranches but for the shortage of feeds. Remember also that large numbers of cattle were being brought into the United States at that time from both Canada and Mexico, and instead of receiving cattle in large numbers from Mexico we are now exporting thousands of cattle weekly for immediate slaughter, the ranges of that country having been depleted of cattle by droughts and followers of the various warring factions.

The CHAIRMAN. It is your judgment, then, I take it, that the reduction of cattle marketed is a reflection of the reduction in herds.

Mr. WILLIAMS. Yes; forced liquidation has been going on for several months. It is my judgment that the true situation is not reflected in the statistics given out by the Bureau of Crop Estimates and the census reports.

The CHAIRMAN. There is quite a wide discrepancy, as I recall, between the census figures and the Department of Agriculture figures, which indicated that the Department of Agriculture figures were very much too high.

When was this conversation that you referred to regarding this $50,000 loan?

Mr. WILLIAMS. About the first of last week. I have had very similar conversations with many other men.

The CHAIRMAN. Has there been any change in policy on the part of the banks down there with respect to making loans in the last six months?

Mr. WILLIAMS. No improvement in the situation. Officers of some of the banks and loan companies have recently stated to me that they would make a few loans to good men under proper conditions. I asked them what they considered proper conditions, and they said loans backed by plenty of security. But under the present deflated values few men can give the margins of security demanded.

The CHAIRMAN. What is the ordinary margin that they require now?

Mr. WILLIAMS. Well, the War Finance Corporation loans made in 1918 on cattle required a margin of 25 per cent. That was about in line with margins demanded by conservative bankers at that time.

The CHAIRMAN. Is a larger margin required now?

Mr. WILLIAMS. Well, they might say they do not, but the values placed on the stock are so low that the margin required is much larger than that. I would say they now require in the neighborhood of about 33½ per cent, and even greater in many cases.

The CHAIRMAN. Then you would not agree with Mr. Mercer's statement that the banks are extending themselves as far as they can to meet the situation?

Mr. WILLIAMS. Many banks have already extended themselves as far as they can, and that is back of the trouble. The truth of the matter is some of them went just a little too far; but many did not, I think, go far enough in trying to take care of their customers.

The CHAIRMAN. I gather from your statement that the failure of the banks to loan is a matter of their indisposition and not their inability?

Mr. WILLIAMS. I think it is principally their inability, because of the fact that their surplus and capital is so limited they can not make loans large enough to meet the needs of the average stockmen, and he must go to the larger institutions at the central markets.

The CHAIRMAN. Do you think that the position of the larger banks in Dallas, for instance, or Kansas City is a matter of inability or a matter of indisposition?

Mr. WILLIAMS. In many instances it is a matter of inability and in many instances it is a matter of indisposition. I have been told by many men that when they applied to one of the larger banks and loan companies for loans and offered plenty of security they were advised, "We are very sorry, but we are not making any new loans now."

The CHAIRMAN. That is a very strange state of affairs, because, if my recollection is correct, the probabilities are that at the present moment, at least, the banks in Dallas and the banks in Kansas City

are very much less extended than the banks in the country, becau: they have liquidated to a much greater degree than the countı banks.

Mr. WILLIAMS. That is true of the banks in Dallas and the oth large cities, but the Texas city banks do not handle as much catt paper as you would think. Dallas is in the edge of the cotton bel and the banks there do more mercantile and cotton loan busines There are a few banks in Fort Worth that do quite a bit of cattl loan business, but they are not in position to extend much relief the cattle business at this time.

Senator CAPPER. The situation in the country banks is still as tigl as it was?

Mr. WILLIAMS. Yes; in the cattle-raising sections. There will l some relief in some sections as a result of the sale of wheat. Mu money is coming into the panhandle of Texas from the sale of whea but in view of the fact that the larger banks at the market cente hold mortgages on their live stock the stockmen are not in ve good shape to secure accommodation from the local banks.

Live-stock values are approximately 50 per cent of what they we 12 to 18 months ago. If operating and marketing expenses ha dropped accordingly, the live-stock producer would not be in tl critical position we now find him. But with his stock worth approx mately what they were 10 years ago, his expenses have increase about as follows: Railroad freight rates approximately 67 per cen yardage and commission charges at markets 50 per cent; interest rat 2 to 4 per cent; general ranch operating expenses 10 to 15 per cen and very substantial increases in county, State, and national taxe

Senator CAPPER. What is the legal interest rate now of the stock men of Texas?

Mr. WILLIAMS. We have a maximum legal rate in the State c Texas of 10 per cent. The great volume of the cattle loan busines in Texas is now carried at the rate of about 9 per cent per annun discount every six months. Some banks and loan companies ar charging 10 per cent, six months discount. Many also charg brokerage.

Senator CAPPER. What is the brokerage usually?

Mr. WILLIAMS. Around 2 per cent. I do not care to mention an names, but I was recently reliably informed that many reliable ca tlemen in New Mexico whom I know have been paying at the rat of 10 to 12 per cent per annum, discount every six months, with per cent brokerage every six months. No man can expect to profit ably continue in the cattle business long and pay such exorbitan rates. They are paying it in the hope that immediate relief ma come from some source.

The CHAIRMAN. If the situation is as you say it is, and there i any relief in high prices, relief will come eventually.

Mr. WILLIAMS. There is another angle of the business to which want to call your attention. The per capita consumption of bee in the United States decreased from 78 pounds in 1910 to 56½ pound in 1920.

The CHAIRMAN. What year?

Mr. WILLIAMS. 1910 to 1920.

The CHAIRMAN. I think your figures on that are wrong.

Mr. WILLIAMS. I think you will find them substantially correct. You probably confuse the consumption of all meat with beef. I am quoting beef only. That decreased consumption has been due to about three principal causes:

First. Patent medicine advertising, which caused many people to believe that meat eating caused all their aches and pains. While the purpose of this advertising was not to discourage meat eating but to encourage the use of the particular medicines named, the campaign has, I believe, seriously affected meat consumption. There should be some means of protecting any industry from such unfair business methods.

Second. When the Food Administration inaugurated the "meatless days" during the period of the war, many patriotic persons did not know that baby beef, cow meat, and much of our best meat did not meet the exacting requirements for Army, Navy, and export purposes, and they therefore considered it their patriotic duty to abstain from meat eating. Meanwhile the dairy interests and manufacturers of various so-called meat substitutes took advantage of every opportunity to encourage the use of their products. Their efforts to develop their industries along broad clean lines were legitimate, but some of their campaigns which reflected directly or indirectly upon meat as a healthful and wholesome food were unfair and illegitimate. War campaigns for the substitution of other food products for meat were augmented by bulletins issued by the United States Department of Agriculture. It seems proper, therefore, to suggest at this time that the department should issue such bulletins and other literature as will again make known to the housewives of America the true food value of meats.

Third. One of the most serious factors affecting meat consumption has been our expensive system of distribution—the growing spread between the prices received by live-stock producers and the prices paid by consumers for meats.

Senator CAPPER. What is the cause of that spread?

Mr. WILLIAMS. The butchers claim that high wages to meat cutters, high rents, and other expenses have substantially increased their overhead expenses. While there has been some reduction in retail meat prices within the past few months, the reductions have not been in proportion to the reductions in wholesale meat prices or prices received by the producers. They made high profits during the period of the war and are not satisfied with prewar rates of profit.

Senator CAPPER. Have you made any inquiry as to the cost of meats to the consumer here in Washington since you have been here?

Mr. WILLIAMS. That is one of the purposes of my visit. I came by Chicago, and after leaving here expect to visit Philadelphia and New York for the purpose of making some inquiry into the wholesale and retail meat trade. We have been waiting about a year for a report of an investigation conducted by the Department of Agriculture; but due to the fact that the report will cover the year 1919, I am afraid the data will be ancient history before it is given out and due to changed conditions will not present the condition of the trade at this time.

Representative TEN EYCK. If you have been looking into the prices charged by the retailers in these different cities you speak of, what

conclusions have you come to? Can you make any statement as to what you found?

Mr. WILLIAMS. I would not care to make a statement at this time on that, because the classes of meat and prices have varied so in the different shops that it would require a lengthy statement to properly present the matter. It might be interesting and of some value to you, but I haven't the data in shape to present it just now. I may be able to do so before the hearings are finished. If I do, I will send it to you.

The CHAIRMAN. We would be very glad to have the data if you can put it in such shape that it can be presented.

Senator CAPPER. You say the price to the consumer is wholly out of relation to the price which the producer receives?

Mr. WILLIAMS. Yes; the reduction that the retailer has made is not in line with the reductions that have been made in the wholesale prices of meats and the prices received by the producers.

The CHAIRMAN. Is that true as to the wholesale price, as compared with the price of the animal?

Mr. WILLIAMS. I don't believe it is. I think the wholesale price has been about in line.

Senator CAPPER. You think a lot of the profiteering, as you call it, is on the part of the retailer rather than the packer?

Mr. WILLIAMS. Yes. A great many have felt that the packers made more money than they claimed in their published statements, but the wholesale prices of meats keep pretty well in line with prices paid the producers. The new "packer regulation" bill will make it possible for the Secretary of Agriculture to keep a line on the wholesale meat trade.

I don't like to use the word "profiteer" in referring to the retailer, but I will say the spread between wholesale and retail prices is too large. Many newspapers would like to have a story in which a representative of the live-stock producer charged the retailers with being profiteers, but too much publicity of that kind would probably result in one of the periodical "buyers' strikes," which hurt the producers more than they do the wholesalers and retailers of the products.

Representative TEN EYCK. I deduce from what you have said in relation to the number of cattle that are now going on the market, so many less than under ordinary conditions, that ought to raise the price to the producer and the packers' price?

Mr. WILLIAMS. Yes; ordinarily that would happen.

Representative TEN EYCK. Do you think the whole reason that is not accomplished under those conditions is due to the spread of this propaganda that you have referred to?

Mr. WILLIAMS. To some extent that is true. High retail prices of meats and forced liquidation by the producers have also been important factors.

Representative TEN EYCK. Your forced liquidation is not keeping the cattle from being put on the market.

Mr. WILLIAMS. The forced liquidation puts on the market a class of meat which is not needed by the trade, and naturally that surplus—a surplus of any class of meat, must have a bearing on the price that is paid for all classes.

Representative TEN EYCK. By having poor meat put on the market, or a meat that is not really ready for the market, the result is

a lowering of the prices on that meat, and the other would naturally fall with it?

Mr. WILLIAMS. That is true.

The CHAIRMAN. Mr. Williams, have you made a comparison of the drop in prices of the different grades of cattle?

Mr. WILLIAMS. No, sir; I have not. But I can get some data for you on that subject if you desire it.

The CHAIRMAN. Well, offhand, is it your judgment that the drop in prices of the lower grades of cattle were relatively greater than upon the higher grades?

Mr. WILLIAMS. That is true on what we call sacrifice cattle.

The CHAIRMAN. A canner cow?

Mr. WILLIAMS. A "canner cow" may be an animal poor in flesh but of excellent breeding, that would if kept on the ranch produce a calf that would be worth at this time around $15. Such a cow in thin flesh, reaching the market when the run was heavier than the trade needed, would not net for the owner any more perhaps than the value of a calf. The sacrifice of such cows, that are needed to restock the ranges of Texas and the Northwestern States, is an economic loss to the Nation. When you face the fact that we have a shortage of about 30 per cent of the normal supply of breeding stock in Texas and adjoining States, and that the growth and development of that territory depends largely upon the live-stock industry, you must realize that it is a serious matter.

The CHAIRMAN. Getting back to the credit situation once more, I suspect that is the crux of the situation.

Mr. WILLIAMS. I think it is.

The CHAIRMAN. And perhaps the export situation.

Mr. WILLIAMS. Exports do not enter into the problem so much just now. The foreign demand for meat is being supplied from South America. The quantities of meats in storage in the United States at this time are below storage stocks of this date last year. A better system of finance would stop the shipment of a large per cent of the stock now going to market, and I do not think we would have any large quantities of beef for export.

The CHAIRMAN. Consumption is not normal.

Mr. WILLIAMS. That is true.

The CHAIRMAN. What I was getting at, however, on the credit proposition, is this: I am interested to know whether, in your judgment, the difficulty lies in the fact that the resources of the banks are insufficient to cope with the situation, or, on the other hand, lies in the fact that the banks were unable to rediscount their paper, and consequently to extend themselves as far as they would otherwise?

Mr. WILLIAMS. I think in the majority of cases the resources of the banks are not sufficient to extend the credit.

The CHAIRMAN. I think that is the situation, particularly in the cattle sections. The information that we have shows quite clearly that the cattle sections of the country have been the hardest hit by price reductions. It is altogether probable, notwithstanding the fact that the country banks in the cattle sections are more extended than they are anywhere else, that the credit situation has been worse in the cattle sections than in any other part of the country.

Mr. WILLIAMS. What has been said of the difficulty in financing the cattle business is also true of the sheep industry. Many cattle

and sheep-producing sections produce no other commodities to speak of, and when they go down everything in the territory goes down with them.

The CHAIRMAN. That is typical of the whole situation with a one-crop country, whether it is cattle, sheep, or cotton; a one-crop section of the country is very much worse off than a diversified section of the country.

Representative TEN EYCK. Is it your idea that the supply of cattle to-day on the hoof is not large enough to warrant assistance in export trade; that we would be better off if we supplied the necessary funds to retain those cattle at the present time with the present owners rather than endeavor to assist export?

Mr. WILLIAMS. Of course, an export demand would probably stimulates values, but if financial aid was extended stockmen of the southwest and northwestern sections, who need cattle to restock their idle ranges, it would certainly bring about improved conditions. The cattleman with idle pastures is just like a factory without material to manufacture its products. With loans available buyers would soon be at the markets buying the sacrifice cows and immature steers and there would be an improvement in values.

Representative TEN EYCK. I am talking from an economic standpoint, whether or not it would be better to assist the owner to hold his cattle and let the natural consumption take up the surplus and thereby raise the price, rather than to stimulate the price from the other side by giving credit to them for export, and thereby get the cattle raiser to sacrifice his cattle?

Mr. WILLIAMS. It would be better, I think, for the cattle raisers and for the Nation, to furnish them such financial relief as will enable them to conserve their breeding herds.

Representative TEN EYCK. That is what I wanted to bring out as regards your impression.

The CHAIRMAN. Is there anything further, Mr. Williams?

Mr. WILLIAMS. Another factor is the need of a reasonable tariff on live stock, meats, and hides. A great many cattlemen who would otherwise remain in the business are selling their herds because they believe this country is on the verge of being flooded with meats from foreign countries, where unquestionably cattle and sheep can be produced cheaper than in this country, because of their low-priced lands, peon labor, low tax rates, low transportation costs, and low living standards.

Substantial importations of meats and enormous quantities of hides have entered our markets during the past year, seriously affecting live-stock prices. Figures prepared by one of the largest packing companies indicate that the value of a hide represents about 15 per cent of the value of the animal. The packers take the value of the hide into consideration when buying an animal. Due to excessive importations of hides the American hide market has been demoralized for several months. A steer hide that was worth around $25 to $30 a little more than a year ago is now worth about $4 or $5. There has not been a corresponding reduction in shoes, leather goods, etc.

A prominent cattleman told me of this experience recently. He called at the shoe store in his home town to price a pair of shoes of

a well-known brand. The price was $12, which he considered too high. The next day he went to his ranch. Soon after arrival he told the ranch hands to kill a nice calf for beef and to be very careful not to damage the hide. He called the hide dealer at a near-by town and learned the best price he could get for this good calf hide was 75 cents. Now, that cattleman would have to sell about 17 good calf hides to receive enough money to buy a pair of good calfskin shoes and pay the war tax on them. Less than one-fourth a hide and very little workmanship were required to make this brief case, but that case cost a few days ago $15—or about the amount a cattle raiser would receive to-day for 20 calf hides. I can not agree that there should be a tariff on leather, shoes, etc., if a tariff is placed on hides. It is quite evident that the cost of hides is a small item in connection with the cost of shoes, leather goods, etc.

Representative TEN EYCK. The question is: Why are hides so low, when shoes and bridles made of the leather that comes from those hides are as high as they are?

Mr. WILLIAMS. I think some interesting things could be developed along that line, which the people are entitled to know. I would like to see this committee look into that matter.

Summarizing, it seems to me the principal needs of the live-stock industry at this time are:

First. A better system of financing which will provide a method of making loans on breeding stock for from one to three years' time, on the basis of reasonable values, and at just rates of interest. Under present financing systems the producers are called upon to pay increased interest rates at times when they can least afford to pay same. Quite often the increase of 2 to 4 per cent in the interest rate changes a small profit to a loss.

Second. A substantial reduction in railroad freight rates. I know no good reason why the railroad companies should be protected from the process of deflation to which all agricultural, commercial, and industrial enterprises have been subjected. It is my opinion that with capable and economical management a lower scale of freight rates would produce a fair return on the invested capital or true valuation of the railroads. Reductions in rates should revive many enterprises which have been throttled by excessive rates and greatly increase the volume of railroad traffic. A continuation of present rates must result in decentralization of the meat-packing business and numerous other great industries.

Third. Reductions in marketing costs. The legislation recently enacted will give the Secretary of Agriculture authority to investigate the reasonableness of most of the charges at the central markets, and to order such reductions as he may consider proper.

Fourth. A better system of distribution, which will bring about a reduction in the spread between the prices received by live-stock producers and the prices consumers must pay for meats and other live-stock products. The recent legislation gives the Secretary of Agriculture authority to supervise the business practices of the wholesale meat trade. Frequent investigations of the retail meat trade, judicious publicity and bulletins designed to encourage better business methods would no doubt help to correct many exist-

ing retail trade evils and reduce the spread between wholesale and retail meat prices.

Fifth. Protection from unfair competition. Carefully prepared bulletins and other forms of publicity setting forth the true food value of meats would encourage meat consumption and prove helpful to the industry. Such publicity has been issued by the Government in connection with other products. The live-stock industry should in someway be protected from unfair publicity by manufacturers of so-called meat substitutes and patent medicines.

Sixth. Reasonable tariff duties on live stock, meats, hides, wool, etc., which will prevent tax-paying American producers from being forced to compete in our home markets with products from foreign countries having cheaper lands, pauper labor, lower transportation rates, lower taxes, and lower living standards. As a result of heavy importations of meats and hides during the past year, millions of dollars which should have been paid to American producers and remained in American channels of trade to help relieve the present financial stringency have gone to help develop the business of competitors in foreign lands.

Mr. COWAN. In connection with Mr. Williams's testimony I would like to read a statement in regard to the excess of imports over exports. I got the chief clerk of the Census Bureau to get this information for me, and I have the original papers here to show.

In 1919, 572,537 cattle imported more than exported.

In 1920, 492,289 more head of cattle imported than exported.

In 1921, 184,301 more head of cattle imported than exported.

These are for the fiscal years.

Last year we became for the first time a greater importer of meats than exporters.

The CHAIRMAN. When you say meats, are you referring to slaughtered animals or cattle?

Mr. COWAN. I am referring to fresh meats, cattle, beef, and mutton.

Mr. WILLIAMS. I think it will be found that a large percentage of the imports was mutton.

Mr. COWAN. I will furnish these statistics for you. I am merely calling your attention to these figures at this time.

Mr. CHAIRMAN. We have the figures.

Mr. COWAN. They are among the figures I will submit.

Mr. WILLIAMS. Judge Cowan, isn't it also true, or rather, don't you think it probably true that the actual imports of cattle from Mexico during the periods which those figures cover, were perhaps slightly larger than shown?

Mr. COWAN. That might be, because they were not all inspected; nobody knew how they came. But this mainly represents importations from Canada to the Chicago market, where a great decline in 1921 was manifested, because of the lessened price of cattle in 1921.

The CHAIRMAN. Is that in numbers or dollars?

Mr. COWAN. This is in cattle, the number of head of cattle. The value I would not want to undertake to state, but it is not very important.

In regard to the bankers, I would like to ask Mr. Williams if it is not a fact that the bankers of Fort Worth and other bankers would

tell anybody that comes in that they were loaned right up to the handle, and deposits are declining, and they can not make new loans?

Mr. WILLIAMS. That is what I understand.

Mr. COWAN. Everybody is told that. Now isn't that the case at Kansas City?

Mr. WILLIAMS. That is true, yes sir.

Mr. CHAIRMAN. Well, that was true six months ago; I don't believe it is true to-day.

Mr. COWAN. Absolutely so, Mr. Chairman.

Mr. WILLIAMS. Yes.

The CHAIRMAN. They make that statement, but my guess is that the Kansas City banks and the Fort Worth banks are not extended to-day.

Mr. WILLIAMS. I do not make this as a statement of fact, but merely my own opinion, that you will find that the deposits have substantially declined in both of those cities in the institutions that handle cattle paper. Furthermore, a large per cent of the cattle loans are handled by loan companies which do not have general deposit accounts but sell their paper.

Mr. COWAN. The deposits, Mr. Chairman, have very greatly declined in the Dallas and Fort Worth banks. I have talked with such men as Mr. Connell, Mr. Van Zandt, and the officers of the First National Bank and the Drovers' National Bank of Kansas City, and many banks over the country, and we have the evidence that was produced before the Interstate Commerce Commission as to the financial condition in Denver, and all the stockmen and bankers concurred in that statement, that the banks are simply unable to make new loans on account of the very large amount of old paper that they had to carry and the decrease in the available deposits. Now I am not talking about your time deposits. They are a very small part of the deposits in the bank.

Mr. Chairman, I would like to file, for the purpose of information, for this record, the testimony given in detail at Denver by Mr. Fred Warren, the son of Senator Warren, who runs the business in Wyoming, as to the conditions in the State of Wyoming.

Also the testimony of Dr. S. W. McClure, formerly secretary of the National Wool Growers, and a man of encyclopedic knowledge on the subject of the entire intermountain and northwestern country and the wool and sheep business.

And also the testimony of Mr. Charles Collins, a large ranch owner of Denver.

Now, this testimony is by men who are actually in the business, with complete knowledge of it, and shows the entire situation as it existed on the 1st day of June, when they testified. And I have had transcribed already in part the testimony, and will have the balance transcribed upon the record which I would like to file, as I think it will be a valuable matter of information, as it was the sworn testimony of these men, who have very complete knowledge of the subject.

The CHAIRMAN. Without objection it may appear in the record.

Mr. COWAN. I can not furnish it to-day, but in the course of a very short time I will furnish it, along with the statistical data which I

have secured since I have been in Washington, made up by the Census Bureau and experts of the different departments.

(The testimony of Mr. Warren, Dr. McClure, and Mr. Cowan, together with the statistical data, all of which is to be furnished by Mr. Cowan, will be inserted.)

The CHAIRMAN. If there is nothing further, we are very much obliged to you, Mr. Williams, and to you also, Judge Cowan.

The commission will take a recess until 10 o'clock to-morrow morning.

(Thereupon, at 5.45 p. m., an adjournment was taken until 10 o'clock a. m. of the following day, Thursday, August 11, 1921.)

AGRICULTURAL INQUIRY.

THURSDAY, AUGUST 11, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The CHAIRMAN. Mr. Doak, the commission will hear you for about 10 minutes, if you proceed now.

STATEMENT OF W. B. DOAK, MEMBER OF THE FARMERS' UNION, CLIFTON STATION, VA.

Mr. DOAK. The Federal farm loan act made two efforts at financing land, diametrically opposite; the one, the American cooperative, the other the joint-stock bank, organized for private profit. Now, we have in the system 4,000 national farm-loan associations of some 200,000 members. Of the twenty-four or twenty-five million stock in the 12 land banks, $18,000,000 is subscribed by the loan associations, which can only lend for refunding or productive and prescribed purposes. We have in the same deal the joint-stock bank, with no restriction whatever as to the amount, place, or purpose of the loan. It may be argued that the $10,000 limit in the cooperative is right or is not. It may be too little. I think it is. The majority of farmers think it is altogether too small to finance American agriculture at this time, in view of the fact that our loans have doubled, according to the last census. Instead of paying off our farm debt during the war we have doubled it. The farm debts have increased largely, both in number and amount, and for that reason and for other good reasons the limit is small. It was small then, and relatively much smaller now.

No Congressman can argue that we should have limited the loan in the cooperative association to $10,000 where the association assumed 10 per cent liability, where there was greater security otherwise, and should have turned loose a bunch of bankers under the joint-stock banks to lend without limit any amount of money to anybody for any purpose.

By the way, it is in direct conflict with the time-honored policy of Congress, which I believe is right, that the public domain, as contradistinguished with the British policy in Australia, and the Spanish policy in South America, whereby they leased or sold immense quantities of land at a nominal price or rental. The policy in this country has been to divide the public domain into small or family-size farms. That policy is wise and right.

There was once an honest Englishman, W. E. Gladstone. In hi speeches on the Irish land question, which, by the way, I think ar the ablest in the English language, he makes two statements in re gard to land. He says that "land is one of the things which doe not permit of indefinite expansion." And the other, that "one man' possession of land is the other man's exclusion," and for those tw reasons a monopoly in land is the most vicious of all monopolies.

I made the accusation that the joint-stock land-bank clause of th Federal farm loan act was the most vicious piece of pro-trust legis lation in the history of Congress. That was my honest opinion abou it—for this reason, it has the special privileges of exemption fror taxation without restrictions which are necessary to make it serv the majority. It enlarges and encourages landholding. Now, th statement went through the United States Senate Banking and Cur rency Committee, Senator Capper, and it was absolutely wrong, tha their loans were limited to $40,000. As a matter of fact, there is n limit in the act itself to the amount of money that may be loaned b joint-stock banks. A ruling of the board put on a limit of $40,00 and was very wise, but suppose that board is changed? I under stand one member of the board thinks of resigning now. Anothe member's time expires next year. A change of one member on tha board and it would probably recall that order. There is nothing i the world then to prevent that act being allowed to finance a gian landholding corporation, a million-acre estate.

I want to make one comment upon this Federal reserve system My Literary Digest told me that they had loaned in financing the sil trade $448,000,000, I believe it was, an average of $10 a pound fo raw silk during 1920, when they were at the same time telling you i Texas that they could not pay 10 or 12 cents a pound for cotton when they could not finance wool that we had in warehouses in Vir ginia at even 15 cents a pound. Just where did they get that or othe money? I may be wrong, but the Comptroller of the Currency say $1,000,000,000 was being loaned at 20 per cent. Meanwhile four New York banks had taken more out of other regional banks than man States. Now, my Bible tells me that usury is a crime.

He that putteth not out his money to usury nor taketh reward against th innocent. (Psalm xv, 5.)

For the love of money is the root of all evil. (I Tim. vi, 10.)

And Jesus went into the temple of God and cast out all them that sold and bought in the temple, and overthrew the tables of the money changers (Math. xxi, 12.)

We have made it a den of thieves. (Math. xxi, 13.)

And when he had made a scourge of small cords, he drove them out of th temple. (St. John ii, 15.)

Statements have been made repeatedly by officials who ought to know, that they were allowed to take this money from farming States, usury furnishing the motive power and our Federal reserve system the vehicle.

The CHAIRMAN. A Federal reserve bank?

Mr. DOAK. Well, the national bank. All the banks in New York City, practically, are under the Federal reserve system, practically all. Of course, the State banks come in in the West, but I take it that practically all in New York City are under the Federal reserve system, and it is in violation of law. Nearly all States in the Union have usury laws.

Representative SUMNERS. Well, the Federal reserve system does not have to do with or does not have control over the amount of interest that the member banks may charge. Those things are under the regulation of the State law. There have been enough things charged to these poor fellows without holding them responsible for interest.

Mr. DOAK. Do you mean to argue to me that the Federal reserve system has nothing to say about who they extend credit to, or how much they were allowed to charge? Have they got to pinch every farmer and small business in the United States because a bunch of blooming speculators in silks or gambling stocks are able to pay 20 or 100 per cent for money? Why shouldn't they restrict their credit? Why shouldn't they say: "You can not have money at all at any price from any bank in the Federal reserve system for gambling"?

Representative SUMNERS. That is a different proposition.

Mr. DOAK. There was enough money put into the silk trade to finance all the cotton and wool in the United States in 1920. Japan got an average of over $10 a pound for raw silk and invested one-tenth of the money in wool and got a better textile and took it over there. I am here to tell you that Gov. Harding has not got sense enough to deal with the Japs; he may be able to deal with us. He and Secretary Houston did hit us a hard below-the-belt lick in this deflation.

The CHAIRMAN. Without objection the commission will take a recess until 10 o'clock to-morrow morning.

(Whereupon, at 4 o'clock p. m., an adjournment was taken until 10 o'clock a. m. the following day, Friday, August 12, 1921.)

AGRICULTURAL INQUIRY.

FRIDAY, AUGUST 12, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met, pursuant to adjournment taken on yesterday, at 10 o'clock a. m., in room 70, Capitol Building, Representative Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. The commission this morning will hear Mr. Fred J. Lingham, of the Federal Milling & Elevtor Co., of Lockport, N. Y., who was formerly head of the milling division of the Food Administration.

Mr. Lingham, the commission would like to have you discuss in general the spread between the price of wheat and the price of flour, the various elements that are involved in that spread, and the complications of the marketing machinery used in the sale, manufacture, and distribution of wheat flour.

STATEMENT OF MR. FRED J. LINGHAM, FEDERAL MILLING & ELEVATOR CO., LOCKPORT, N. Y.

Mr. LINGHAM. Mr. Chairman and gentlemen of the commission, I came down without any formal statement prepared, not knowing just what information might be wanted, excepting that I realized that naturally you would want to know the general reasons for the spread between the farm producer and the actual consumer.

One reason for the big spread to-day is, of course, the high freight rates. I have prepared a small table giving these freight rates, in bushels. For instance, the rate from Edgeley, central North Dakota, on wheat to the seaboard is 44.4 cents per bushel; from Goodland, Kans., on the Colorado-Kansas State line, it is 47.1 cents per bushel. Of course, I just have taken typical points; all points in the above States would not be the same.

Domestic freight rates per bushel to New York City, Aug. 10, 1921.

	Wheat.	Corn.	Oats.
	Cents.	*Cents.*	*Cents.*
Central North Dakota (Edgeley)	44.4	41.44	23.68
Minneapolis, Minn	29.7	27.72	15.84
Colorado-Kansas State Line (Goodland, Kans.)	47.1	43.96	25.12
Kansas City, Mo	33	30.8	17.6

The above figures do not include any commissions, handling, or transfer charges. Rates for export are 3 cents less from the Northwest and 4 cents less from the Southwest per 100 pounds.

Now, when you realize as regards the price of wheat, which is what, I presume, you want me to cover, the price which the farmer gets is the value at the seaboard for export less freight. So long as we have exportable surplus of wheat, that exportable surplus makes the price for wheat, in a general way.

Senator LENROOT. By that do you mean the Liverpool price?

Mr. LINGHAM. Yes; the Liverpool or seaboard prices are practically the same after allowing for ocean freight. We have to compete with Australia and India at times, so the Liverpool and seaboard price makes the price for the country as a whole.

On the 9th, which was Tuesday last, No. 2 hard wheat was worth about $1.40 at the seaboard. That amount is not exact, because of variations in grades, but about $1.40. That means that the freight from the western part of Kansas was taking about one-third of the final selling price.

Now, in saying that I do not attempt to say at all that freight rates should be reduced; I don't know. I think that is something only a freight man is competent to pass on.

Senator LENROOT. In that connection, can you tell us what the prewar freight rate was from the same points?

Mr. LINGHAM. The prewar freight rate would have been about half.

Senator LENROOT. About 17 or 18?

Mr. LINGHAM. I forget the exact figures, but I think about half.

The CHAIRMAN. It would have been more than half.

Mr. LINGHAM. As a matter of fact, the prewar rate to Buffalo was then 11, and now it is 24, so it was less than half.

Senator LENROOT. Are these all rail rates you are giving, or lake and rail?

Mr. LINGHAM. These are all rail.

Senator LENROOT. How about the lake and rail rates?

Mr. LINGHAM. I do not know just how the water rates compare, but they would be very little less; probably not more than 2 cents less, when you include the transfer charges necessary. When you bring the wheat from Kansas City and attempt to ship over the Lakes, you bring it from Kansas City to Chicago, and the northwestern wheat to Duluth, and at Chicago or Duluth transfer to boats, and the transfer charges are high at both ends. I do not mean to say unreasonably high; I do not know. The charges are higher than the water freight itself, in many cases.

Senator LENROOT. How many transfers do you include; more than at Buffalo? I mean the actual transferring of the grain.

Mr. LINGHAM. Well, in starting from Kansas City, you bring your wheat to Chicago——

Senator LENROOT (interposing). Is that an actual transfer of grains, as a rule?

Mr. LINGHAM. You mean at Kansas City?

Senator LENROOT. No; in Chicago.

Mr. LINGHAM. Yes; to go by water.

Senator LENROOT. Into the elevators and out?

Mr. LINGHAM. By the water route?

Senator LENROOT. No; you are giving a rail route.

Mr. LINGHAM. Oh, I thought you meant by lake and rail.

Senator LENROOT. No; all by rail.

Mr. LINGHAM. Then there is no transfer.

Senator LENROOT. Then if you ship by lake and rail, what do you do?

Mr. LINGHAM. Then you bring the wheat in cars from Kansas City to Chicago, and then you have to have an arrangement for assembling wheat in cargo lots. In other words, it is impossible to bring in straggling cars of wheat and dump it into a boat. You can understand how that is.

Senator LENROOT. Well, it goes into an elevator.

Mr. LINGHAM. Yes; it goes into an elevator, and we as millers, or those who have the grain at Chicago, must arrange for storage room, which is more than the mere transfer. In other words, he must have enough storage room arranged for there to assemble a sufficient quantity of wheat for a cargo, as it is called, or parcel. Then when the wheat comes down the lake it must be insured, whereas by rail it does not have to be insured. You take some chance of loss by shortage by boat, more than you do by rail.

Now, at Buffalo, there again you must arrange for a transfer from the boat to the cars. Then, again, in transferring from the boat to cars in Buffalo you have to transfer in bulk and arrange to take it out of that bulk in a quantity that you can unload into your mill. In other words, we might unload 100,000 bushels from a boat into an elevator in a day in Buffalo, but we could not take that 100,000 bushels into our mill. We have not the unloading facilities, and practically no mill has. So there again there is a charge for storage as well as of transfer.

Representative SUMNERS. Now, in the practical operation of the business do you buy in the interior and go through this procedure, or is not the wheat assembled at Chicago by merchants to distribute and redistribute at Duluth and at Buffalo?

Mr. LINGHAM. At Buffalo, say?

Representative SUMNERS. Yes; to be redistributed at Buffalo.

Mr. LINGHAM. Well, to answer your question directly, we buy no wheat in Chicago ourselves, for the reason that the so-called contract grades of wheat in Chicago are not the kind of wheat we want. We have tried at times to go back into the country. I have made trips out there myself and tried to buy from country points. That has not been found entirely practicable, for the reason that the small country elevator perhaps has one car or five cars to-day, when perhaps we have made no flour sales, and therefore do not want to buy to-day. Then the one car or five cars he may have to-day may not be the character of wheat we want. It may be a yellow-berry wheat, which we do not want to buy. So it is very difficult for us—I might say impossible for us—to buy directly from the interior country point on a practical basis, much as we would like to do it.

Representative SUMNERS. You have to go to the country elevator and look for the wheat?

Mr. LINGHAM. What we are doing this year is going to Kansas City. We place a man in Kansas City to buy for us to-day whatever number of cars we may say of the kind of wheat we want.

Senator LENROOT. On sample?

Mr. LINGHAM. All on sample. We buy nothing on grade in Kansas City. As the wheat comes into Kansas City and the sample is shown on the floor he goes around and chooses the kind we want.

Senator LENROOT. Of course that makes it more expensive to you, where you buy on sample, than if you bought on contract?

Mr. LINGHAM. Yes; but if we bought on contract we might get wheat we could not use.

Senator LENROOT. Yes; I understand; but it does add to the expense.

Mr. LINGHAM. Yes; it adds to the expense, but it is a necessary expense.

Senator LENROOT. What proportion of wheat is bought on sample, roughly, and what proportion on contract?

Mr. LINGHAM. I would not like to make a statement——

Senator LENROOT (interposing). I would not expect you to be accurate; just approximately.

Mr. LINGHAM. As nearly as I could answer, I would say practically all the wheat being bought out of Kansas City to-day is bought on sample—practically all of it.

Senator LENROOT. When you buy on sample, how do you hedge against that; do you turn in as nearly as possible what the grade would be on contract?

Mr. LINGHAM. In the first place, we try to buy wheat as we sell flour. That puts us even on the market, of course.

Senator LENROOT. So in that case you would not hedge at all?

Mr. LINGHAM. We would then not hedge at all, because we would be even as to purchases and sales. Now, it so happens that to-day we can not sell as much flour as we must have wheat coming to keep the mills in operation. In other words, if we wait until we sell the flour and then buy the wheat it would be perhaps two or three weeks or a month before the wheat got through, and our consumer would not wait for us. So we are hedging. We are hedging largely in Chicago, realizing that we are hedging or selling wheat in Chicago which is not like the wheat we are buying.

Senator LENROOT. But you get as near to it as possible?

Mr. LINGHAM. Of course, you can not ordinarily use the wheat you buy in Chicago; you have got to buy or sell so many bushels of September or December wheat, for instance.

Senator LENROOT. Are they not in grades there?

Mr. LINGHAM. No.

Senator LENROOT. Not at all?

Mr. LINGHAM. No; there is a rule that various grades are deliverable in the different markets. For instance, in Chicago any of the following grades are deliverable at the option of the seller:

GRADES OF WHEAT DELIVERABLE IN CHICAGO ON "FUTURE CONTRACTS."

No. 1 dark hard winter wheat.
No. 1 hard winter wheat.
No. 1 yellow hard winter wheat.
No. 2 dark hard winter wheat.
No. 2 hard winter wheat.
No. 2 yellow hard winter wheat.
No. 1 red winter wheat.
No. 2 red winter wheat.
No. 1 northern spring wheat.
No. 1 velvet chaff wheat.
No. 1 dark northern spring wheat.
No. 2 dark northern spring wheat.
No. 2 northern spring wheat.
No. 1 red spring wheat.
No. 2 red spring wheat.

Also, some of the lower grades of wheat are deliverable on these contracts at specified discounts. In Minneapolis the following grades of wheat are deliverable:

No. 1 dark northern spring wheat.
No. 1 northern spring wheat.
No. 1 red spring wheat.
No. 2 dark northern spring wheat.
No. 2 northern spring wheat.

Other grades deliverable at specified discounts.

Senator LENROOT. I supposed selling future delivery was on specific grades.

The CHAIRMAN. No; that is the exact trouble with the proposition. If a mill could hedge on its grain and then when it bought in its hedge could elect to take the wheat desired instead of selling its hedge, it would mean something; but as it is, because the miller can not be certain of being delivered a millable grade of wheat on the hedging contract, instead of selling his wheat, he must take in the hedge.

Senator LENROOT. Then, as a matter of fact, you expect, when buying on grade, that you will get the lowest grade?

Mr. LINGHAM. When buying on grade we expect to get the lowest quality of the contract grade bought; and in hedging we simply hope that the Chicago—if we are hedging there—will run parallel with the cash wheat. In other words, we hope that if we buy wheat at $1.50, if that should go down 25 cents, we hope Chicago will go down the same, so that where we will have lost 25 cents on our cash wheat purchase we will have made that 25 cents on our Chicago hedge. And, of course, it acts in the reverse way—that if the cash wheat goes up and we make 25 cents on the cash wheat, then we will have lost that 25 cents on our hedge. In other words, we do not hedge to make money; we hedge as an insurance against loss.

Senator LENROOT. Does it sometimes occur that the lower grades go down and the higher grades up?

Mr. LINGHAM. Very decidedly so. For instance, within the last month in Minneapolis cash wheat sold at 75 cents over their option. When we buy, while we hedge to minimize our loss, we realize that there is little chance of its being a sure insurance against loss.

Senator CAPPER. Would it be helpful to you, and would it facilitate your business, if the grain growers of Kansas and other Western States would organize in a large way cooperatively and furnish you their grain through one large general sales agency?

Mr. LINGHAM. I will answer that in perhaps an indirect general way. We would like to buy just as directly from the producer as possible. All mills, I think, are in that position. It is going to be very difficult, I believe, for the farmers to work out a selling organization where their expenses of handling the business will be much, if any, lower than the present expenses between the producer and the consumer.

Senator CAPPER. That would then be in favor of a movement in that direction, would it not?

Mr. LINGHAM. Well, our preference would be to buy from the producer; but practically I question whether that movement is going to be a success. That would be my answer.

Senator CAPPER. What would enter in the way of a movement of that kind? What objection do you see? What difficulties would they meet?

Mr. LINGHAM. You are going to have large expenses in doing the business. For instance, I have a miller friend in Kansas who has a lot of elevators in the country. He told me last year that it was costing him considerably more to buy his wheat through his own country elevators than that same wheat would net him on the Kansas City Board of Trade, the reason being that the movement of wheat to those country elevators was not large enough to take care of the fixed expenses of keeping those elevators open. Of course, again the movement to those elevators might be large enough so that he would have a very small cost.

Senator CAPPER. But in the instance I cite, you would not be dealing with the small country elevator; you would be dealing with the one general sales agency representing a great many grain growers. Now, would not that remove some of the difficulties you speak of?

Mr. LINGHAM. We would be very glad if that can be brought about.

Representative SUMNERS. Speaking of your country elevators and the expense of their operation, is it not necessary, in order to avoid storm damage and the deterioration of the grain, to be able to put it into an elevator reasonably close to the place of production; to make my question clear, can you during the period of grain thrashing, without having to provide an enormous unnecessary transportation facility—unnecessary in ordinary times—move that grain to the great concentrating elevators at the terminal market?

Mr. LINGHAM. I believe that wheat should be stored as near the point of production as possible. Does that answer your question?

Representative SUMNERS. That answers my question; yes, sir.

Mr. LINGHAM. I believe it should be stored as near the point of production as possible, for the reason that when you have it back at the point of origin you have a wider choice as to where that wheat may be shipped, and you can ship it—assuming that you are a farmer or a country elevator man—you can ship it then to the market paying the highest price at the moment.

Representative SUMNERS. As Senator Capper has in mind, if you had a number of these elevators sufficiently large to handle enough grain to justify their administration and the assembling at some particular central point—not the grain, but samples of the grain, or a description of the grain by grade, so that buyers could resort to that place without having to scour the country—would such an arrangement be feasible from an economic standpoint and from an economical standpoint?

Mr. LINGHAM. Well, last week a man in charge of one of our mills—we have a mill in Ohio—wanted to do a similar thing. The country around there had some off-grade corn at times; he wanted our permission to send out samples of that corn, or rather of cracked corn and corn meal made from this off-grade corn, and sell it on sample. I said, "Theoretically it is all right, but you send out those samples broadcast, and one man will buy and the other ninety-nine people might come in and want it, and you will have to say, 'It is sold.'"

Now, that is somewhat different from your proposition, because your idea would be that these hundred or thousand country elevators would send samples, possibly to Chicago, and they would only sell

through the Chicago office. I think that would be practical, but it is possible to-day.

Representative SUMNERS. Yes; it is possible——

Mr. LINGHAM (interposing). We will buy from any country elevator on a sample of the individual car, and will be very glad to.

Representative SUMNERS. But the difficulty, unless there is some affiliation of country elevators, would be that no individual elevator could afford to maintain a place in Chicago to which buyers could resort, nor could they, perhaps, maintain the necessary office force and the necessary expert service in order to be able to deal satisfactorily either for their clients or satisfactorily from the standpoint of the miller who desires the service.

Mr. LINGHAM. That is true, but the country elevator to-day can send his samples to a grain man in Chicago.

Representative SUMNERS. Oh, yes.

Mr. LINGHAM. He can do that to-day.

Representative SUMNERS. Yes.

Mr. LINGHAM. And I believe it will be found by experience that he can do that to-day as cheaply as he may be able to do it through that office.

Senator LENROOT. Does he do it, as a matter of fact, now?

Mr. LINGHAM. I do not believe he is doing it to any large extent. I do not know to what extent it is being done.

Representative TEN EYCK. Would you be able to purchase any better through the country elevator if the Government would establish grading of wheat as regards the various varieties, with a certificate setting forth the moisture, the dockage, and the foreign material?

Mr. LINGHAM. We have that to-day.

Representative TEN EYCK. No; from information I have gained elsewhere, especially on spring wheat, we have a governmental grading, but it is not graded in accordance with the berry of the wheat. The grade is given in accordance with the foreign material and dockage and moisture, which governs the grade of the wheat. Now, I am asking whether you could buy better from the country elevator if the wheat was graded on the berry alone, and a certificate given setting forth the moisture of that wheat and the dockage and the foreign material; then you would know exactly what that wheat was; you would know the seed of the wheat; and you would know the grade of the wheat itself.

Mr. LINGHAM. Possibly I should answer your question this way——

Representative TEN EYCK (interposing). Am I right in my conclusion in the difference in the way the wheat is graded to-day, especially the spring wheat?

Mr. LINGHAM. I am going to satisfy you by my answer. I was, some years ago, chairman of the Millers' National Federation Committee on grain grades. I worked for something like two years, spending a good deal of my time in Washington at my own expense—or the expense of the organization—Of course, I had no pay whatever—working for Federal grades, hoping that we then would be able to buy on grades, as you have outlined. But there is such a wide difference in the quality of the wheat throughout the same section, or in some instances even from the same farm, that we are

buying very little on grade. Now, if what you say would be possible I would say yes. The situation is, however, that the official descriptions of various grades of wheat go into minute details in describing the character of different wheats.

Representative MILLS. May I ask a question—I am not a farmer the way the rest of these gentlemen are, so please be a little elementary with me. As I understand Senator Capper's question, he proposes, through a cooperative agency large enough to deal directly with the millers, to avoid the process of selling in the open market; is that your understanding of the question?

Mr. LINGHAM. That is my understanding.

The CHAIRMAN. Able to deliver a given kind and character of wheat, and a given grade at a given time and given place.

Representative MILLS. Let me ask you first, if that is the case who would finance the carrying of that wheat until the time that delivery came?

Mr. LINGHAM. The farmer's organization naturally would.

Representative MILLS. Would that be a very heavy financial burden requiring a large capital?

Mr. LINGHAM. Yes, sir.

Representative MILLS. Let me ask you a second question: As far as the milling industry is concerned, it buys wheat in advance, does it not, months in advance, contracting for future delivery?

Mr. LINGHAM. They do at times, but, generally speaking, mills buy for current requirements—I think in a general way mills as a whole are not buying beyond their expected requirements to keep their mills in operation.

Representative MILLS. No; but you misunderstand me entirely. The mills do not wait until the crop is ready for market to do their buying?

Mr. LINGHAM. May I ask if you have the idea that the mills as a whole do buy away ahead?

Representative MILLS. I had an idea that they bought a reasonable time in advance, so as to know where they stood. I did not suppose they bought from day to day.

Mr. LINGHAM. Oh, yes; we buy from day to day. We have to-day standing orders in Kansas City to buy so much each day, and the same thing in Minneapolis.

Representative Mills. Exactly. How far ahead do you do that?

Mr. LINGHAM. We only buy enough ahead to keep a flow coming to keep our mills in operation.

Representative MILLS. Do you contract at all for future delivery?

Mr. LINGHAM. To-day not at all.

Representative MILLS. I am not asking about to-day, but I will say as a normal proposition.

Mr. LINGHAM. I will say, since the war we have not. I should say some few mills may have bought ahead, but they are subject to losses.

Representative MILLS. How far ahead would you buy?

Mr. LINGHAM. We will not buy a bushel——

Representative MILLS (interposing). Suppose you buy to-day, when will it be delivered—to put it in a different form?

Mr. LINGHAM. Any wheat we buy to-day we hope will be in in two weeks.

Representative MILLS. In two weeks?

Mr. LINGHAM. Yes, sir.

Representative MILLS. And that will represent the maximum of time, under normal conditions?

Mr. LINGHAM. What do you mean by normal conditions—prewar conditions?

Representative MILLS. Let us say prewar conditions. You have been buying from day to day because you have been buying on a falling market.

Mr. LINGHAM. The fact is that in our wheat buying we pay no attention to price conditions except possibly as to so-called premium conditions for various grades of wheat and for different deliveries.

Representative MILLS. It does not take any great amount of wisdom to see what actuates you. I am asking you, under normal conditions, how far do you buy ahead?

Mr. LINGHAM. It would depend entirely on whether we could sell flour ahead.

Representative SUMNERS. Under the ordinary procedure, you sell your flour in advance, when you can?

Mr. LINGHAM. When we can we will sell up to 60 days' delivery.

Representative SUMNERS. And then when you do not have wheat you hedge; you buy a hedge against the sale?

Mr. LINGHAM. Yes, sir.

Representative SUMNERS. And then you go on the market and buy the wheat, contracting for its arrival at your mill at about the time when you want to begin to grind up that lot of wheat into flour sold?

Mr. LINGHAM. Yes, sir.

Representative MILLS. That is what I assumed to be the ordinary procedure. Now, that certainly extends over a period of two weeks?

Mr. LINGHAM. Oh, sir, we can not sell our flour to-day for two weeks ahead. We would if we could. But the consuming public——

Representative MILLS (interposing). We can not base any permanent condition on a temporary situation. Senator Capper's suggestion was to have a permanent organization through which the millers could deal with the farmers. You understood that he proposed to build up, in the next six months, a more or less permanent proposition; isn't that so?

Mr. LINGHAM. I understand some plan or plans have been under way.

Representative MILLS. What I was getting at—of course, if the wheat is not bought for future delivery and the farmer can finance it, I do not see that the suggested system offers any particular advantages over the present system; in other words, it seems to me the proposed system offers about the same advantages that the present facilities do. I do not know whether you get my point. I personally can see some great advantages to the farmer in having an open market by which his price is fixed by the economic law of supply and demand, and that there consumers can buy for future delivery at prices regulated by the economic law of supply and demand for future delivery. But, of course, if there is no real demand for future delivery, it seems to me that you could do business just as well in

dealing with farmers and elevators and buying wheat as you wanted it on the basis of delivery in two weeks.

Mr. LINGHAM. I believe, sir, I did not get the trend of the informatiton you wanted before. As a matter of fact, at times mills do buy ahead. Their buying is very largely dependent on their sales of flour, and in prewar times it was nothing unusual to sell bakers and dealers three or four months ahead.

Representative MILLS. I am connected with a concern that is a very large user of wheat, and I know that we buy a good supply of wheat ahead of time, and if we expect a rising market we are very careful to buy ahead.

Mr. LINGHAM. You must be in a cereal business.

Representative MILLS. And when you inform me that mills normally buy two weeks ahead as a regular thing you changed my conception of the business.

Mr. LINGHAM. I thought you were asking about the present year. I assume you are connected with a cereal company?

Representative MILLS. Yes.

Mr. LINGHAM. As a matter of fact, in a cereal company you have a much wider margin of profit than we do in the mills. I know that is the custom of cereal companies, but mills as a whole do not do it.

Representative TEN EYCK. Let me ask you what is the practice; is it not the practice of the flour mills, as a rule, to speculate in purchases a long time ahead?

Mr. LINGHAM. No; decidedly no.

Representative TEN EYCK. Your idea is this, that they buy a certain time ahead to give them a constant flow in accordance with their sales?

Mr. LINGHAM. Yes, sir.

Representative TEN EYCK. And if their sales are a long time ahead, they buy wheat a long time ahead and hedge on that?

Mr. LINGHAM. You are correct, as a general policy.

Representative TEN EYCK. The miller who buys a long time ahead and is a speculator is liable to go broke?

Mr. LINGHAM. Yes; you are right.

Representative TEN EYCK. And the fellow who is not a speculator does not buy ahead, as a rule?

Mr. LINGHAM. You are correct.

The CHAIRMAN. You may proceed, Mr. Lingham.

Representative SUMNERS. Mr. Chairman, before he leaves that question I would like to ask him a question. You said, I believe, you spent about two years trying to work out grades of wheat?

Mr. LINGHAM. Yes, sir.

Representative SUMNERS. So that mills could buy on that grade and get delivery of the grain they bought and grind it into flour?

Mr. LINGHAM. That was our object.

Representative SUMNERS. Now, why didn't you do it; and how far did you succeed?

Mr. LINGHAM. My work largely ceased when the grain grades bill was passed by Congress, which gave the Department of Agriculture authority to go ahead and establish the grain grades under certain specifications. Now, we millers are somewhat disappointed in the fact that it has not been possible to establish specifications for grades

which would insure our getting the particular kind of wheat we wanted. There are some grades that do reasonably assure us a quality; for instance, No. 1 dark northern.

Representative SUMNERS. That is sufficiently descriptive of the kind of wheat so that you can depend upon buying by grade?

Mr. LINGHAM. Yes; but we would not thing of buying just No. 2 northern wheat or No. 1 northern wheat.

Representative SUMNERS. Why?

Mr. LINGHAM. Because we would not be sure that the wheat was hard enough for our particular use.

Representative SUMNERS. Would it be possible to put in a subgrade there specifying the element of hardness?

Mr. LINGHAM. That is where the "dark" comes in, if it is that.

Representataive SUMNERS. That is a description of a grade, "dark"?

Mr. LINGHAM. Yes; that is a description of a grade; an official grade.

Representative SUMNERS. Now, from your practical experience and knowledge of the requirements of mills, would it be possible to establish grades, even though you should have to have 10 or 15 or 20 grades which would sufficiently describe the bulk of the wheat, so that a miller could purchase by a grade and know what he was getting, and know that he would get the wheat to grind up into the kind of flour that he had contracted to sell?

Mr. LINGHAM. I am afraid not. They have to-day 80 grades. That is, it runs from 1 to 5 northern, and dark northern, and hard, and red, and soft, and durum, and so far they have not been able to establish grades, with a few exceptions, on which we could buy.

Representative SUMNERS. When your buyer goes in to sample a lot of grain, he has in mind the kind of wheat he wants?

Mr. LINGHAM. Yes, sir.

Representative SUMNERS. Now, why could you not write the description of that wheat; condense the description of that wheat into a grade term?

Mr. LINGHAM. It looks easy. And perhaps one difficulty is that the characteristics of different grades are different in different years. For instance, this last year wheat in Kansas City, No. 2 dark, hard, has actually sold for more than No. 1 dark hard, because largely of the gluten characteristics in No. 2 as compared with No. 1 Then there is some of the so-called bleached wheat, which has been rained on in the field, which would be more desirable in some respects than the so-called perfect berries, and we are paying a premium on part of this so-called bleached wheat, compared with more perfect or normal softer wheat.

Representative SUMNERS. I will not take up any more of your time on that subject.

Mr. LINGHAM. I am here for your convenience.

Representative SUMNERS. This was a matter of which I desired information personally, and I will not take any more of your time or the time of the committee.

The CHAIRMAN. You may proceed, Mr. Lingham.

Representative MILLS. Let me take up a question with you upon which the chairman enlightened me, but I would like to get your opin-

ion about it. Speaking again from the depth of my ignorance, I assume that these gentlemen who want to abolish the great exchanges and have the farmer harvest and store his wheat and deal directly with the miller—assuming that that idea was aimed at—first, would it help the consumers represented by the millers, and in the second place would it benefit the farmer? I would like to have your opinion about that.

Mr. LINGHAM. I believe it would hurt both.

Representative MILLS. Why?

Mr. LINGHAM. If we could not hedge wheat, we would be afraid to buy, and if we were forced——

Representative MILLS (interposing). Explain that, will you, please; just deal with the elementary process here of what would take place; assuming that there was no free and open market, but that the farmer stored his grain in his own elevator and you had to buy from him?

Mr. LINGHAM. In other words, if there were no hedging market, which would result if there were no exchanges.

Representative MILLS. That would be my idea. I do not see how you could, if you do not buy and sell from day to day in a place where there is always a market obviously there can be no hedging.

Mr. LINGHAM. We would then be forced into speculation if we wanted to keep our mills in operation.

Representative MILLS. Now, tell me why.

Mr. LINGHAM. Because, supposing we could not hedge to-day—we would require to-day in our little business perhaps 100,000 bushels of wheat to flow to our mills that we can sell as flour as milled from day to day. Now, if we could not hedge that 100,000 bushels, we would have to take chances on it, wouldn't we, in the market?

Representative MILLS. Yes; it seems so to me.

Mr. LINGHAM. It is as simple as A, B, C. Now, the result would be that we would minimize that flow to a greater extent than we do to-day.

Representative MILLS. You would buy from hand to mouth?

Mr. LINGHAM. Even nearer from hand to mouth than we do to-day. We are down pretty near as close as we can be and keep it coming. But we know we are not as close as we would be if we had to take all chances on the market. Then we buy also directly from the farmers at the mills, who unload into our mills directly from the wagons. To-day we never refuse wheat from a farmer, because to-day we can turn around and hedge, but if we could not hedge and thought the market was going lower than it is to-day we would be foolish to buy from the farmer.

The CHAIRMAN. You would have to buy and sell entirely on the basis of orders?

Mr. LINGHAM. Yes. To-day in buying our wheat from farmers we pay no attention to the orders or the current market conditions. We simply balance what we call our "over and short," and if we have a little wheat on hand we hedge against it.

Representative MILLS. I have gathered since I have been down here that some fellows here are under the impression that if the farmer can get away from the exchanges and store in his own elevators that he can then control the price. Now, let me ask you about

that. He obviously can hold a part of this year's crop until next year if he has the financial means to do it. But next year's crop comes along and will have to go on the market or be held, and in three or four years will not the farmer find himself governed by the economic, ordinary law of supply and demand?

Mr. LINGHAM. Let me answer that question. Suppose the farmers' organization has 200,000,000 bushels of wheat that is held at the end of the crop year. What can he do with it? He can not eat it; he must dispose of it. In other words, I fully agree with your position. I do not believe the farmers can control the price of wheat. I know we can not control the price of flour.

Representative TEN EYCK. Right there, let me ask you a question: Of course, it would be impossible, from my standpoint, for the mill to buy direct from the farmer and do away with any intermediate organization, due to the fact that we are exporters of wheat. The European countries are not going to come over here and go out to the farmer and buy his wheat.

Mr. LINGHAM. No, sir.

Representative TEN EYCK. There has got to be an organization to assemble wheat and buy wheat and redistribute it to the various purchasers, either domestic or foreign. But the difference is—and what Senator Capper, I imagine, is endeavoring to do is to eliminate the large corporations who are out for financial gains, who become a part of the great spread between the cost of production and the cost to the consumer. Now, if the farmer cooperated, and had a cooperating organization to take the place of these corporations and the commission men, would the farmer be in a better position as regards the disposition of his grain, and in a better position as regards the price for which he sells it? He could decide as regards whether or not he would sell it in Europe or in the United States, instead of selling it to the corporation who, later on, decide where they will distribute the grain and how, and at what price. In addition to that, we have had in the past great speculators in grain. There is a bill now pending in Congress, or has been passed, to prevent that. What we want is a natural flow of grain in a business way without speculation, but in a way that the farmer will get the full return on his product. Do you think that the cooperative organization, acting as commission men to-day, could take the place of these other men in that particular class of business?

Mr. LINGHAM. Yes; I think so. And I personally do not believe that the farmers' cooperative movement along the lines now proposed, of gathering the wheat and marketing it themselves, is going to succeed.

Representative TEN EYCK. I do not know whether you refer to Senator Capper's idea or not, but is it not possible that a cooperative organization working along the right lines can succeed? The citrus fruit growers in California have succeeded very well.

Mr. LINGHAM. Excuse me; are you referring to the citrus fruit growers as a cooperative movement?

Representative TEN EYCK. Yes.

Mr. LINGHAM. I do not believe that they try to control prices.

Representative TEN EYCK. I have not said that the farmer will control the price, only to this extent, that he will cut out the profits

of this so-called middleman, and thereby get a larger return on hi sales and control distribution, which will have a tendency to kee prices more on a level.

Mr. LINGHAM. A few years ago we tried to cut out the middlema in Kansas City. We went out there and bought an exchange mem bership for the definite purpose of keeping out the middleman. Bu in a year or two, or five years, conditions came around so that w were not buying any wheat in Kansas City. Then we had a heav expense on our hands to maintain that membership, and later w sold it. So we have about come to the conclusion that we can n save money by "going around" the present grain-selling custo and organizations by ourselves. Our interest would be identic with the farmer, you understand.

Representative TEN EYCK. That is, you started at the other end

Mr. LINGHAM. Yes, sir.

Representative TEN EYCK. But you are not organizing at the en through which you are proceeding, therefore, you could not de with them through an organization. You had to deal with the through the exchanges, and naturally you would fail, because yo had 99 per cent of the business conducted in a different way tha that in which you were trying to do it, and that generally mee with failure.

Mr. LINGHAM. Well, if the farmers' organization can be organiz to bring us into touch with them, we will be pleased.

Representative TEN EYCK. You think it would be beneficial the if they can make it go?

Mr. LINGHAM. If they can, and if they can conduct their busine cheaper than the present cost of getting wheat to us.

The CHAIRMAN. Let us see now if we can get to the practic points of the price of wheat without so much talk.

Mr. LINGHAM. The only practical point I have touched on is th freight rate. In round figures it is about one-third at the seaboar Then come the commissions, and transfer charges at termin markets. But they are comparatively small. If we buy wheat o track at Kansas City or Minneapolis, we figure it costs us 2 cent including commission and transfer charges, to get it through. question whether that could be minimized much. It might, perhap be cut down a half cent by smaller commissions.

Then, of course, when you come to the flour, the consumer, yo come to the cost of making a barrel of flour and distributing.

Representative TEN EYCK. May I ask one question there, M Chairman?

The CHAIRMAN. Yes.

Representative TEN EYCK. You have given the cost of railroa transportation to the seaboard. You have not as yet given the co of transportation to the mills, as I understand it, and I would als like to know where the greatest percentage of the flour is now mille in the United States.

Mr. LINGHAM. Well, to answer your first question, as to the freigh to the mills, I have taken here the through freight from points o origin to the seaboard.

Representative TEN EYCK. Yes.

Mr. LINGHAM. That would include the freight to the mills a wheat, and the freight on the product to the seaboard.

Representative TEN EYCK. Oh, I see; you are not going to include that then in the cost of your flour?

Mr. LINGHAM. Oh, no; that is included in here.

The CHAIRMAN. Is the price of flour based on the actual cost of the freight to the milling point or on the cost of freight at the seaboard?

Mr. LINGHAM. Of course, the cost of flour at the mill is based on the freight to the mill. Then the selling cost of the flour is based on the freight from the mill to destination, you see.

The CHAIRMAN. I was just getting at whether you had a special rate at New York for selling flour on the basis of what the freight actually was.

Mr. LINGHAM. I just took New York as the selling point and Minneapolis for the milling point. The rate to New York from Minneapolis is 29.7. This, of course, would cover the full transportation, excepting handling or transfer charges.

I forget your second question.

Representative TEN EYCK. Where is the greatest amount of flour produced; in what locality?

Mr. LINGHAM. In Kansas and the Northwest. The Northwest, I should say, first.

Reprecentative TEN EYCK. The most of the flour is produced in the Northwest?

Mr. LINGHAM. Produced in Minneapolis; yes. Minneapolis is still the biggest milling point in the country.

Representative TEN EYCK. Well, your first answer answers my second question in a way, since the freight that you charged on the original bushel of wheat will not be again charged in the cost of milling the flour.

Mr. LINGHAM. Yes; that made your second question immaterial.

Representative TEN EYCK. Yes.

Mr. LINGHAM. But when you get to trying to figure the spread between the cost of wheat to the mill and the cost to the consumer, it is going to be very hard to name any figure. That must include not only the cost of manufacture and distribution, but it must include the materials you get from your offal. In a general way the cost of a barrel of flour is figured by taking the price of wheat and multiplying by the amount of wheat used.

The CHAIRMAN. There is inserted at this point a letter and memorandum received from Mr. Lingham after he testified, giving more detail as to the yield of flour, as follows:

FEDERAL MILL & ELEVATOR CO. (INC.),
Lockport, N. Y., August 26, 1921.

Hon. SYDNEY ANDERSON, M. C.,
Washington, D. C.

DEAR MR. ANDERSON: Flour yields: In your investigational work you could undoubtedly get considerable information from the United States Department of Agriculture Bulletin No. 557, and especially from the tables on pages 11, 12, and 13.

As the bulletin is, of course, quite technical, I have made up a statement which would really be the result of these findings by the Department of Agriculture when put into more easily understood figures, as attached hereto.

I presume it is only natural that a man not in the milling business believes that a barrel of 196 pounds of fancy so-called "family flour" can be made from, say, 280 pounds of wheat. The fact is, of course, that the 280 pounds of wheat will make practically 196 pounds of a so-called "straight," but this is not

a flour that would be at all satisfactory to the family trade or to the high-clas bakery trade for making bread.

These figures in the bulletin mentioned are, I believe, about as nearly correc as any figures you could get, and, using these figures, it would require over 40 pounds of wheat to make a barrel of fancy bread flour or a so-called 70 per cen patent.

Of course, all mills have different ideas as to percentages of various grade of flour they make. Flour is made as low as 50 per cent patent, or even lowe and some mills put out so-called fancy flour as high as 85 per cent patent, o even more than that, but the figures used cover an approximate range as use by some high-class mills.

The tabulation as attached hereto covers more especially bread flour mad from hard wheat. The flour made from soft wheat would be quite differen but I will not attempt to give a tabulation on that, as it would probably onl confuse, excepting that I might say that quite a large part of the soft wheat i ground into a "straight" grade and used for pastry and similar purposes.

Yours, truly,

FRED J. LINGHAM.

WHEAT REQUIRED TO MAKE "STRAIGHT" FLOUR.

[Dept. of Agr. Bulletin 557, p. 11, fig. 8.]

Basis 56 pounds to 57 pounds wheat extraction is, under Department of Agr culture investigations, 69.4 per cent, requiring 282.4 pounds wheat.

Therefore, from 282.4 pounds of wheat the products will be 196 pounds o straight flour, 82.4 pounds of mill feed, and 4 pounds of invisible loss in millin

WHEAT REQUIRED TO MAKE A BARREL OF FANCY FAMILY BREAD FLOUR.

If it requires 282.4 pounds of wheat to make 196 pounds of straight flour, i would, of course, require 403.4 pounds of wheat to make a 70 per cent paten Then this 403.4 pounds of wheat would be divided:

	Pounds.	Approxima prices, Aug 10, 1921.[1]
Fancy family flour (70 per cent)	196	$9.
Fancy clear, used for mixing with rye flour (25 per cent)	70	7.
Low grade (quite largely exported)	14	4.
Total flour	280	
Feeds	118	
Invisible loss (about)	5.4	
Total	403.4	

[1] Prices named are carload lots Boston rate of freight in 98-pound cotton sacks.

Representative MILLS. When you take it to-day, where do you ge off; can you do it that way?

Mr. LINGHAM. Well, there is such a wide range between differen kinds of wheat and different kinds of flour, sir.

Representative MILLS. Take any one, for example, will you? I will tell you why I want this: Because there is in the record to-da by a representative, I think, of some of the farm organizations a estimate of the spread, and he did not differentiate, as I remembe the record, between different classes of wheat or different classes o flour. He took an arbitrary kind of wheat and figured 5 bushels, a I remember, to the barrel of flour, and figured the farmer got approxi mately $5, and that, expressed in terms of loaves of bread sold to the consumer, made the cost $25. That is in the record to-day, and I thought it would be just as well if you gave us some actual figures rather than to deal with generalities.

Mr. LINGHAM. Before giving any figures I would like to show just a very rough chart here that will explain the difficulty of that somewhat. In round figures, suppose we figure 270 pounds, or 4½ bushels. A mill can make 200 pounds of flour of various grades from 270 pounds of good, heavy wheat, say No. 1 grade.

Representative MILLS. Two hundred pounds?

Mr. LINGHAM. Yes; 200 pounds of flour from 270 pounds, say, of No. 1 northern wheat. Then, he has 70 pounds of by-product as feed. A year ago we were getting around $40 to $60 at the mill for that by-product, of various grades, a ton—call the average $50—that is, $2.50 per hundred.

Representative MILLS. Why do you give us figures of a year ago?

Mr. LINGHAM. I wanted to show the difficulty of figuring. That 70 pounds was neting us $1.75 for the 70 pounds of the feed by-product. To-day we can not get over $17 per ton, or 85 cents per hundred, which is only netting us, say, 59 cents. In other words, our by-product to-day of 70 pounds of feed is netting us about $1.15 less. As a matter of fact, the spread is even greater.

Representative TEN EYCK. How much a carload is that, delivered from Buffalo to Albany?

Mr. LINGHAM. I did not get your question.

Representative TEN EYCK. What is the rate on that feed?

Mr. LINGHAM. To New York, including the freight tax, $5 per ton.

The CHAIRMAN. From Lockport?

Mr. LINGHAM. Yes; or Buffalo.

Representative TEN EYCK. I thought the carloads to-day were quoted at $24.50, middlings or bran.

Mr. LINGHAM. I thought you asked for the freight rate.

Representative TEN EYCK. You said $17 f. o. b. Buffalo.

Mr. LINGHAM. I was bringing to the net bulk per ton, New York, which is delivered in New York——

Representative TEN EYCK (interposing). $5 added to $17, in accordance with that, would give you $22.

Mr. LINGHAM. But you have to take out the cost of the sack.

Representative TEN EYCK. You did not figure on the cost then of the sack?

Mr. LINGHAM. No; I am bringing it back to the net bulk at the mill. The cost of your flour varies with the cost of the by-products. Then you take that 200 pounds of flour that you have got from your 270 pounds of wheat, and you have got a straight flour which I have often compared to "whole" milk. Now, you can take a bottle of whole milk and divide it into any number of grades. You take off 10 per cent of the bottom of the milk, and you have improved the balance; you take off, say, 40 per cent more, and you have made cream. Now, in the same way you take the 200 pounds of flour and take out 20 pounds of the low grade, and you have made the balance improved flour; you take out another 40 per cent, or 80 pounds, which, as you know, is a flour that you would not use in your homes; it is only used in rye-bread mixtures. But you take out that 40 per cent, and you have still a richer grade. Of course you will understand, any grade or several grades of milk can be made from whole milk, and likewise a large number of grades of flour can be made from the same wheat, and no two mills make their flour identically the same.

Representative MILLS. No; but is there not such a thing as an average grade of flour? Now, instead of the variations, could you not give us some average grade of flour, and then give us the cost of the wheat and the cost of the flour and then the selling price?

Representative TEN EYCK. Mr. Mills, he is a miller; why not let him tell us what he is paying for his wheat and what he is selling his flour for?

Representative MILLS. That is his private business. I would like to know the cost of the average grade of flour—what the cost of the wheat is and the cost of the flour, and then what the selling price is. But I am not asking him to give the prices at his mill, but to tell the general average.

Mr. LINGHAM. Frankly, I would have to answer that I do not know what we are paying for wheat. I have not been buying the wheat, so I could not answer it that way.

Representative TEN EYCK. That is the kind of information we want. If you can tell us what is the cost of the wheat and the cost of the flour and what is the selling price of the flour, that is the information we want.

Representative MILLS. You can trace the wheat on the market to-day, and take the price of the wheat and at the same time the price of a barrel of flour as of the same day, and then trace the intermediate stages for us. Couldn't you do that?

Mr. LINGHAM. Yes, sir.

Representative TEN EYCK. He can tell that, because he sells his flour on the basis of the cost of the wheat.

Mr. LINGHAM. Yes; I can tell that. Say the wheat on the basis of $1.50, and I can take that and trace it through for you.

Representative MILLS. Is not wheat much lower than that to-day?

Mr. LINGHAM. Soft wheat is lower than that. Our hard wheat is costing us more. I do not remember really what it is. Do you remember, Mr. Anderson, the track price in Minneapolis?

The CHAIRMAN. No; I think possibly we have got it here some place within a day or two.

Representative TEN EYCK. Will you not submit for the record actual information along that line?

Mr. LINGHAM. I will be very glad to give you any information I can.

Representative TEN EYCK. We are going to get it from some place whether from you or somebody else; this commission is going to get the information, because that is the only way the commission can make an intelligent report; we do not want it about your milling business in particular but about the milling business in general.

Mr. LINGHAM. Any information I can give you I will be only too glad to give you. I am down here for that purpose. But I do not want to give you information which might look definite, but which might be very misleading.

Representative TEN EYCK. No; we do not want that.

Mr. LINGHAM. No. But on the 9th our prices in Boston on carload lots of flour on the arrival draft for various grades of flour made from the same wheat was all the way from $10.35 to $4.75. They were various grades of flour made from identically the same wheat. That range was from $10.35 to $4.75, and the $4.75 flour

was the hardest flour to sell. We probably would have to cut it to $4.25 to get rid of it, and possibly not sell it then.

Representative MILLS. Then the figures which the gentleman gave us as to the number of loaves of bread were misleading, to say the least?

Mr. LINGHAM. They amounted to nothing, sir.

Representative TEN EYCK. You are not indicating or stamping the barrel of flour or the ingredients in the barrel of flour, so the public would know what they are purchasing?

Mr. LINGHAM. I attended a conference in Washington some few years ago before the Department of Agriculture, before Dr. Alsberg, when a committee was named for the purpose of standardizing flours, and I believe I may say they gave it up as an impossibility. Flour is sold, as a general rule, on a guarantee that if it does not suit a consumer the mill will take it back. We happen to make a very fancy flour, and we go after the trade that wants that kind of flour. Another mill will make a flour not quite so good, or perhaps another mill will make a better flour and go after trade accordingly.

Representative TEN EYCK. Do you make one kind of flour?

Mr. LINGHAM. We are making 10 different grades of flour, 7 of these being made from the same wheat, in other words, from hard wheat. Then we make three other grades from soft wheat.

I would be very glad to give figures of cost based on any wheat price.

Representative TEN EYCK. Do you sell a particular brand of flour under a certain name, like Pillsbury's Best, or White Chief, or something of that sort?

Mr. LINGHAM. Yes; our leading brand happens to be Lucky, and we have, perhaps, 20 other brands.

Representative TEN EYCK. What is Lucky selling for now in Boston?

Mr. LINGHAM. On the 9th it was $9.85.

Representative TEN EYCK. In carload lots?

Mr. LINGHAM. In carload lots on arrival draft.

Representative TEN EYCK. What did you say this wheat was costing you, approximately, at the present time?

Mr. LINGHAM. I do not remember the price; I have not been handling that. It is all handled on the mechanical basis. We get the market on it each night——

Representative TEN EYCK. Well, in a general way?

Mr. LINGHAM. I do not care to give it, because I might give you a very misleading statement. I do not want to give a figure too high, and I do not want to give one too low. If you could get the price of wheat in Minneapolis I can give you the price from that. For that particular purpose I think any figure would do. You are not investigating our price here.

Representative TEN EYCK. Oh, no.

Mr. LINGHAM. What you want is some basis——

Representative TEN EYCK. But we have got to obtain, approximately, the cost of wheat to-day, with the approximate cost of the flour to-day, so as, as Mr. Mills suggested, to check up this farm organization that has made a statement regarding the cost of wheat and the cost of flour.

Mr. LINGHAM. Well, of course, they went away beyond a reasonable basis when they went into that.

Representative TEN EYCK. We can not assume that until you have disproved their statement by figures in a regular way.

Mr. LINGHAM. I mean, when they went into the cost of the bread. As I understood you to say, sir, they gave the cost of wheat in bread.

Representative MILLS. Yes; they estimated it.

The CHAIRMAN. This was substantially the proposition. Say a farmer was getting $1 a bushel for his wheat. It takes 5 bushels of wheat to make a barrel of flour—it is really about 4½, but we will say 5 bushels. There is $5 worth of wheat in that flour, which to-day is selling at $10.50 a barrel. There is a spread of $5.50 between the farmer and consumer.

Representative TEN EYCK. Those are only approximate figures that the chairman is giving now.

Mr. LINGHAM. I understand. Mr. Chairman, have you got Minneapolis September wheat there?

The CHAIRMAN. Chicago September wheat, August 10, was $1.22.

Representative TEN EYCK. One dollar and twenty-two cent wheat in Minneapolis would be what in Buffalo?

Mr. LINGHAM. There is a premium over that contract grade for milling, and I am trying to think what that was.

The CHAIRMAN. This is the Chicago price.

Mr. LINGHAM. You have not got the Minneapolis price there?

The CHAIRMAN. Yes. September wheat, Minneapolis, on August 10 was $1,29⅛.

Mr. LINGHAM. Cash wheat was selling at about 25 cents over the September option for immediate delivery. We figure it costs us 16 cents to get that wheat into our mill. To be exact, it is 16.1 cents, but I will call it 16 cents. That is to get it as far as Lockport. That would have made the cost of wheat to us $1.70.

Now, I will take the figure as 4½ bushels. A big proportion of the mills figure they can not make a barrel of flour under 4 bushels and 40 pounds.

Representative TEN EYCK. Four and two-thirds is about the average?

Mr. LINGHAM. Yes, four and two-thirds. Now, if you use that figure of four and two-thirds—and a good many more figure four and two-thirds than four and one-half—that would mean $7.92 for the wheat. Very few mills to-day are able to make flour and distribute it under $1.25 a barrel.

Representative MILLS. Why do you say "distribute it"?

Mr. LINGHAM. To sell it through their salesmen.

Representative MILLS. In that $1.25 you are including everything, are you not? You are including your manufacturing cost, and you are including your selling expenses?

Mr. LINGHAM. Yes, sir; everything—interest——

Representative MILLS. At the mill or at the point of delivery?

Mr. LINGHAM. That would include everything but the freight and the package.

Representative MILLS. That includes interest too?

Mr. LINGHAM. That would include the interest you would pay on drafts on wheat—not interest on your investment.

Representative TEN EYCK. Does that take care of your overhead?

Mr. LINGHAM. That takes care of the overhead, but not any profit.

Representative MILLS. Except interest?

Mr. LINGHAM. Yes; we do not figure interest on the investment.

Representative TEN EYCK. Do any mills mill their flour at 75 cents? What would you cut out to bring the cost of milling of flour down to 75 cents a barrel?

Mr. LINGHAM. I wish we knew; we would cut it out.

Representative MILLS. What did you say it was selling at in Boston to-day, your standard brand?

Mr. LINGHAM. Nine dollars and eighty-five cents.

Representative MILLS. And it costs you, according to those figures, $9.17?

M.. LINGHAM. I wish that were true. But you understand, that standard brand is only a part of that 200 pounds; the balance of it is sold at $7.25 and $4.75. That is what raises that price so. In other words, this cost here of, say, $1.25, and your freight to Boston of 55 cents——

Representative MILLS. Makes $9.72?

Mr. LINGHAM. Nine dollars and seventy-two cents, less the value of the by-products, 72 cents, or $9 for a "straight" grade of flour.

Senator LENROOT. I have been away, but I am very much concerned about this. You gave $7.92 as the total cost of a barrel of flour?

Mr. LINGHAM. I was assuming that our price of wheat was $1.70, sir.

The CHAIRMAN. If we use Minneapolis in this particular calculation, your calculation would be out of line, because at the present time the Minneapolis price is out of line by several cents. It is higher than Kansas City and higher than Chicago.

Mr. LINGHAM. Kansas City is underselling Minneapolis to-day by about $2 a barrel.

The CHAIRMAN. Well, it ought to be. The September wheat price in Kansas City is $1.11, and it is $1.29 in Minneapolis.

Senator LENROOT. Well, this $7.92 is based on $1.70 wheat, is it?

Mr. LINGHAM. Yes, sir; that would be the wheat cost on the basis of 4⅔ bushels.

Senator LENROOT. For wheat that will produce one barrel of flour?

Mr. LINGHAM. That will produce one barrel of so-called "straight" grade, not a patent, and the straight grade is a grade that families will not use.

Senator LENROOT. Very well. Now, what else will that produce?

Mr. LINGHAM. That produces 80 pounds of mill feed, and that is worth to-day—call it $18 a ton at the mill. That would be 90 cents a hundred, which would be 72 cents for the 80 pounds. That would bring it down to $9 at Boston.

Senator LENROOT. That would make your cost $7.92?

Mr. LINGHAM. $9.72 less the value of the offal, about 72 cents, or $9 net in bulk, or $9.22 in 98-pound cotton sacks, and we are selling that grade of flour at $9.05 in 98-pound cottons.

Representative MILLS. I thought you said $9.85.

Mr. LINGHAM. $9.05 for straight; you have not figured the patent, you see. We are selling the straight at $9.05, but that is not a grade

that families will use, you understand. The grade we sell to familie is $9.85.

Senator LENROOT. What do you get for that barrel of straigh flour?

Mr. LINGHAM. Just let me answer the other question first, if I may. If we figure that on the basis of $1.70 wheat, it would figur $9 Boston in bulk, or $9.22 in cotton—that is, 98-pound cotton sacks— Boston, for straight-grade flour.

Representative MILLS. What does that sell for? That is wha I would like to know.

Mr. LINGHAM. We are selling that at $9.05. The competitio to-day is very keen.

Senator LENROOT. Your wheat costs you $7.92 on the basis of $1.70 does it?

Mr. LINGHAM. Yes, sir; and the manufacturing and distributio cost—that is, manufacturing and selling—$1.25, 55 cents for freight 22 cents for the cotton sacks per barrel.

Senator LENROOT. Well, we will take the bulk—even $9. What d you make that, $9.72?

Representative MILLS. I make that $9.72, which makes his net cos in Boston $9 in bulk.

Mr. LINGHAM. And we are selling it at $9.05 in 98-pound cotton.

Senator LENROOT. You are making about 5 cents a barrel?

Mr. LINGHAM. The fact is, we bring down this $1.70 cost somewha by using some Kansas wheat, so that the $9.05 is showing us to-day— well, I assume it is showing us 15 cents a barrel profit. We would b very glad if it is.

Senator LENROOT. Have you gone into the elements that make u the $1.25 manufacturing and selling cost?

Mr. LINGHAM. I have not those figures, sir. I could not give you the details, because I do not know them.

Senator LENROOT. But how do you arrive at the $1.25?

Mr. LINGHAM. Simply from our books and expenses. Of course we total all expenses.

Senator LENROOT. What time is that based on?

Mr. LINGHAM. Every month.

Senator LENROOT. This month, last month, or when?

Mr. LINGHAM. Month before last it was over $1.25. I do not know what last month was.

Senator LENROOT. Are those total expenses measured by your production or by your sales?

Mr. LINGHAM. Measured by production, and we run full time.

Senator LENROOT. That is, you run at peak of production?

Mr. LINGHAM. Yes, sir; in our Lockport mill, and this is figured on our Lockport mill.

Senator LENROOT. Now, can you tell me what your manufacturing and selling cost was before the war?

Mr. LINGHAM. When we got started in business 14 years ago we could do this same manufacturing and distribution at 40 cents.

Senator LENROOT. Now, what elements enter into that difference? You say you have not the figures, but you probably have in mind the general factors that enter into it.

Mr. LINGHAM. Of course, our wages are considerably more than double what they were at that time.

Senator LENROOT. Have you reduced wages recently?

Mr. LINGHAM. We have only very slightly, for the reason that the mill employees did not go up to the very high wages of other industries. Our men stood with us very loyally, and we have thought it only right under those conditions not to cut them just the minute we could.

Senator LENROOT. Is that true of the milling industry in general?

Mr. LINGHAM. I think that is true of the milling industry; yes. Men stayed with us at $5 a day that could have gone to neighboring plants at $7, $8, and $10 a day. They had been with us for years, and so we felt that we should take care of them, and we are just now beginning to cut a little.

Representative TEN EYCK. But this increase, Senator, is 300 per cent.

Senator LENROOT. If your wages did not increase proportionately to the general increase in wages, where does this increase come in?

Mr. LINGHAM. I think you misunderstood me; I said that was a decided increase.

Senator LENROOT. But I said proportionately to the others.

Mr. LINGHAM. Of course, if we had increased in proportion to other industries, we would have had to put our prices away up still further.

Senator LENROOT. Well, wages did not increase over 100 per cent, did they?

Mr. LINGHAM. Oh, I have given you extreme figures; I have given you here the high wages of to-day as compared with 14 years ago. Our wages in that time have gone up more than 100 per cent. We were hiring men at that time at $1.50 that we are to-day paying $4 and $4.50. You asked if we were cutting wages, and I answered that we had not to any extent.

Senator LENROOT. Well, what proportion of the production cost is ascribable to labor?

Mr. LINGHAM. I do not know, sir; I have not the figures. We naturally leave that to the accounting department. What we are interested in is the total cost each month.

Senator LENROOT. Why, it is very easy to determine what your pay roll is, is it not? And that is one item of expense, and you must have it right before you in arriving at this $1.25.

Mr. LINGHAM. The accountants have, sir; but I have not analyzed that.

To go on before we leave this cost of flour—this $9.20. If you gentlemen want to get any place and find what the cost of flour is, you have got to know the percentage of patent made by each mill and the percentage of the low grades, which are by-products.

The CHAIRMAN. There is inserted here a letter received from Mr. Lingham after he testified, relative to the cost of flour, as follows:

FEDERAL MILL AND ELEVATOR CO. (INC.),
Lockport, N. Y., August 27, 1921.

Hon SYDNEY ANDERSON, M. C.,
Washington, D. C.

MY DEAR MR. ANDERSON: Figuring cost of flour: Possibly a tabulated statement showing the figuring of the cost of a barrel of flour would be more understandable than the statements made before your commission. I therefore inclose statement herewith showing the figuring of the cost of a barrel of "straight" grade of flour, and also the cost of a barrel of 70 per cent patent.

Of course, you will understand that it is entirely impossible for any person to figure the cost of the flour made by any mill, unless they know all the details of cost entering into the question at the moment of figuring.

For instance, a man figuring cost must know: The cost and proportion of each kind of wheat used in the wheat mixture. The actual yield being obtained by the mill from such mixture. The current manufacturing and selling cost. The price obtainable for each by-product.

The above factors are changing so constantly that a mill manager out of touch with all the above conditions, even for a day or two, is not in position to figure the cost of his own mill product.

It very often happens, for instance, that feed sells at a higher price in one part of the country than another, because of some local conditions existing at the time.

One mill may be using a very high grade of wheat which might make a barrel of flour out of only 4 bushels and a half. Another mill might, for some good reason, be using lighter weight but possibly stronger wheat, but which would require 5 bushels or more to make a barrel.

Any such figures, therefore, as those inclosed, can only be considered as illustrative and of a very general character.

There is, of course, a very wide range in prices between different characters of wheat, as for instance, last evening Minneapolis Dark 1 Northern would cost us here as high as $1.69, while we could buy soft winter wheat at about $1.20, but of course the two wheats are used for making entirely different characters of flour, the spring wheat for bread, and the soft wheat for pastry flour. As a matter of fact, the pastry flour last evening was selling $2.55 per barrel under the bread flour.

Yours, truly,

FRED J. LINGHAM.

Cost of flour, "straight" or 100 per cent grade.

[Basis: Wheat, $1.70 per bushel at mill; 280 pounds of wheat per barrel; value of feed (the by-product) $18 per ton f. o. b. mill; manufacturing and selling cost, $1.25 per barrel; invisible loss, or shrinkage, 4 pounds per barrel.]

280 pounds (4⅔ bushels) wheat at $1.70 per bushel	$7.92
Manufacturing and distribution cost	1.25
Total gross cost	9.17
Less selling cost of feed (the by-product) bulk at mill, 80 pounds, at $18 per ton (90 cents per 100 pounds)	.72
Cost per barrel of straight grade of flour in bulk at mill	8.45

To get selling cost there would have to be added freight from mill, cost of containers, and profit.

Cost of fancy family or bakery short patent flour.

[Basis: 70 per cent patent; 25 per cent first clear, $6.50; 5 per cent low grade, $3.50; cost of "straight" grade flour in bulk (see previous exhibit) $8.45.]

NOTE.—The "First clear," "Low grade," and "Feeds" are always sold at the best obtainable prices (they are the by-products and therefore are not figurable as to their own cost) and the prices obtainable for these by-products control the cost of the Short Patent, in connection with cost of wheat and manufacturing and selling costs.

Cost 100 per cent "straight" flour per barrel		$8.45
Value 25 per cent first clear at $6.50 (see above)	$1.625	
Value 5 per cent low grade (or second clear) at $3.50 (see above)	.175	
Total value of the 30 per cent by-products		1.80
Cost of the remaining 70 per cent		6.65
Making cost of 100 per cent of the 70 per cent grade, per barrel		9.50

To get selling cost there would have to be added freight from mill, cost of containers, profit.

Senator LENROOT. But you have given your straight flour—everything goes into the flour in this figure you have given except the feed?

Mr. LINGHAM. Well, I have taken out the feed.

Senator LENROOT. I say, everything goes into the straight flour except the feed, and you have given us the feed separately, so that you have given us that $7.92 as the cost of the wheat to the mill?

Mr. LINGHAM. Yes, sir. But, of course, that is a grade that the average family consumer will not use. Of course, when you come to figuring the Boston market price of flour you could not use the straight grade, because it is only the bakers—and I might say not the best bakers—that use that grade. The better grade of baker will use a flour that we make at 20 cents more, and a still better baker uses our regular family flour, which is $9.85.

Senator LENROOT. In other words, the price of a particular flour does not necessarily mean the same thing as the sum of a patent and a lower grade?

Mr. LINGHAM. It nets the mill the same.

Representative TEN EYCK. They raise one flour, and they decrease the other, and that is why I say if we carry the straight flour right straight through we will get the proportionate cost of any other grade of flour in the market.

Mr. LINGHAM. In other words, every night in arriving at the price of our Lucky flour we get the cost of the wheat, add the cost of manufacture, and deduct what we can get for the by-products, which is feed and low grade and first clear, and the result brings the price of the short patent, as we call it.

Now, if we could get as much for first clear as we can get for short patent, and for low grade as much as we can get for short patent, then we could sell the short patent at the same price as the straight, and we would. But low grade is very hard to sell. I imagine that since I left home on Tuesday night they have had to cut the price of low grade to possibly $4. That would mean that even if wheat had not advanced it would advance the cost of our short patent. If they found they could get $6 a barrel, they would have reduced it.

Senator LENROOT. You sell to whom? You sell to the bakers, you said?

Mr. LINGHAM. We sell to the bakers and to the family trade, both.

Senator LENROOT. You sell direct to the retailers then?

Mr. LINGHAM. We do to a very large extent, to a much greater extent than the average mill.

Senator LENROOT. Have you given the committee any knowledge you may have as to the margin between your price to the retailer and his retail price?

Mr. LINGHAM. I do not know what it is to-day, sir. I know this, that at home we figure in a general way that we can buy from our retailer our own flour delivered at our own home cheaper than we can send a truck from the mill to the house.

Senator LENROOT. Have you general knowledge that the retailer's margin on a staple product is comparatively small?

Mr. LINGHAM. I should say that the retailer to-day is probably not getting over 80 cents to $1.50 a barrel. I could not say, because I have no definite knowledge.

Representative TEN EYCK. In barrel lots?

Mr. LINGHAM. No; that is in sack lots, per barrel. In other words, I think without any question a lot of eight-paper-sack flour is being sold at 10 cents a sack profit.

Representative TEN EYCK. There is one other question I would like to ask you as to this wheat that was laid down to you at $1.70, I think you stated. Have you any idea what the farmer on the farm receives for that wheat?

Mr. LINGHAM. I do not; no, sir.

Representative TEN EYCK. The reason why I asked that question is this: There was a statement made here some time ago as regards what a representative of a farm organization said in relation to the spread between the selling price of the wheat and the cost of the barrel of flour to the consumer. I believe that when he used that comparison he used the figure that the farmer got for it and not the figure at the elevator. Am I not correct, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. LINGHAM. Of course, he was showing the spread between the producer and the consumer, so perhaps he was right in doing that.

Representative TEN EYCK. That is what he represented, so, of course, he took it from the soil rather than after it had gone through two or three hands.

The CHAIRMAN. Now, these figures that you have given us are apparently on the basis of extraction of a No. 1 wheat, weighing 58 pounds?

Mr. LINGHAM. Yes, sir.

The CHAIRMAN. Of course, if you were using a lighter weight wheat it would take more bushels to make the same number of pounds of flour?

Mr. LINGHAM. Oh, yes; if we use a light-weight wheat we allow five or six bushels to the barrel.

Senator LENROOT. Mr. Lingham, what makes the market price of flour?

Mr. LINGHAM. The cost of the wheat, plus the cost of conversion and distribution.

Senator LENROOT. That is true now, of course. Is that true on a rising market?

Mr. LINGHAM. Yes, sir. Mills generally go up and down with the market every day.

Senator LENROOT. Is not the natural tendency with that business just as it is with any other, if there is a great demand, to get what the traffic will bear?

Mr. LINGHAM. I would say that when there is a large demand for flour the mills get a better margin than when the demand is very low, because when the demand is very low they very often sell at a considerable loss. It is safe to say that a big proportion of the mills in this country for the last six months have sold under cost. Figures show that the flour production last year was something like 25 per cent below normal.

Senator LENROOT. You do not mean at a loss that would not have prevailed if the plant had not operated? You take overhead into consideration in that statement?

Mr. LINGHAM. In other words, they sold at a loss to prevent a still larger loss by shutting down.

Senator LENROOT. Could we have a better distribution that would avoid a great deal of this freight? In other words, take your mill. Does it enter into a territory a long distance from your mill, and do other mills enter into your territory and thus add to the general average of freight cost and make it greater than if the mills supplied their own natural territory?

Mr. LINGHAM. I think mills are supplying their own natural territory. The flow of wheat is from the West to the East. When we had only our Lockport mill we never pretended to send flour back of Buffalo. We happen to be 25 miles east of Buffalo. We did to a small extent ship into Buffalo, but very little. We must ship downstream. The Minneapolis mills and the Kansas mills are shipping downstream, and stopping off in our market and selling. We are on the stream of the wheat, so to speak, taking the wheat up and turning it into flour, and sending it on downstream as flour. So competition, I believe, forces the economic movement of wheat.

Senator LENROOT. Your competition, except for deep-water transportation, is confined to competition within your natural territory? Is that true?

Mr. LINGHAM. No; our competition comes from, you might say, all mills east of the Rockies. We compete very hard for business with Minneapolis mills and with Kansas City mills at home and east of us.

Senator LENROOT. I can see that that would be true, but take the mills west of you, we will say. You do not compete with them, because the flow is to the east?

Mr. LINGHAM. We compete with them so far as they ship east.

Senator LENROOT. I mean, so far as you ship west?

Mr. LINGHAM. Oh, no; the freight makes it impossible.

The CHAIRMAN. Of course there is a back flow of flour into the country that is west of the Mississippi River, for instance. There are no milling facilities to amount to anything in the inter-mountain territory, for instance.

Mr. LINGHAM. Oh, yes; quite large. But there is a movement of flour there, shipped perhaps from the Northwest, because they do not raise the kind of wheat there to make hard-wheat flour or to make a spring-wheat flour. And, of course, the mills in Minneapolis ship all the way to the Pacific coast and even to Honolulu. But that is because those sections do not raise the kind of wheat they want.

Representative TEN EYCK. Taking two mills of the same size and the same class, is there any advantage in being located in the West and make long shipments on delivery in flour over a mill that makes its long shipments of wheat and short shipments of its product?

Mr. LINGHAM (drawing a diagram). We will say here is the country. Here is Minneapolis. They have the advantage over us that they can cover this whole territory; in fact, they ship down South, and to some extent to the coast. The movement of wheat is also south, to some extent, as well as east. Now, they can cover that whole territory. Now, we are down here at Buffalo—the Lakes come down here this way [indicating] and Buffalo is here. We can only ship in that small part of the territory. [Indicating.] In other

words, they have the advantage of a very much larger territory than we have.

Representative TEN EYCK. You do not quite get my question.

Mr. LINGHAM. Possibly I was going to answer you.

Representative TEN EYCK. Perhaps I did not make it plain. My idea is that with these mills of the same size and of the same class one will have the advantage over the other, due to freight rates—one located at Minneapolis and one located at Buffalo, but both selling in the New York market. One has the advantage of the short haul of the grain, but has to pay for the long haul of the flour. The other has the long haul of grain and the short haul of flour.

Mr. LINGHAM. That is a difficult question to answer. I think that as a whole the railroads are trying to make the freight situation at the one point the same as at the other; although I will say for the northwestern railroads that they do openly, and perhaps properly, favor their northwestern mills. In other words, they are trying to build up the Northwest, and the Kansas railroads are trying to build up their section as a milling section, because it is of very decided advantage to a country to have mills there. They make the by-product.

Representative TEN EYCK. Is it of any particular advantage to the mill to be located there? You are working on an uneconomic basis if you are building up a place that is not economically located.

Mr. LINGHAM. Well, we have the advantage at Buffalo of being nearer our consuming trade, and when wheat comes down the Lakes by water at a proper freight rate we have a slight freight advantage under Minneapolis. Of course, at times that water rate goes very high, which takes away that advantage.

Representative TEN EYCK. Why is that?

Mr. LINGHAM. Supply and demand for tonnage on the Lakes.

Senator LENROOT. But you always have some advantage in shipping a barrel of flour in the form of wheat to Buffalo? That is, it costs less to ship enough wheat to make a barrel of flour to Buffalo than it does to ship a barrel of flour to Buffalo?

Mr. LINGHAM. No; the situation there is the same, because, of course, if you ship flour you only ship 200 pounds, while if you ship wheat you have to ship 280 pounds. That would give them, on the face of it, an advantage. As a matter of fact, their feed consumption is also largely in the East; and so while we ship 280 pounds of wheat they ship 200 pounds of flour and 80 pounds of feed.

Representative TEN EYCK. They have the same tonnage?

Mr. LINGHAM. The tonnage is the same.

Senator LENROOT. The tonnage would be the same, but the character of the product is such that your rate is necessarily cheaper on the grain than it is on the flour for the same tonnage.

Mr. LINGHAM. Well, no——

Senator LENROOT. It must be.

Mr. LINGHAM. As a matter of fact, the general rates are about half a cent a hundred less on wheat than on products.

Senator LENROOT. Is that all?

Mr. LINGHAM. There are points in Ohio and Indiana where there are exceptions, where the difference runs as much as 3 cents, but that is very exceptional. That is by rail, you understand.

Senator LENROOT. Do you happen to know the rate on flour from Minneapolis to Buffalo and the rate on wheat from Minneapolis to Buffalo?

Mr. LINGHAM. No, sir; I have not those figures, but there is not over half a cent difference.

The CHAIRMAN. Is it not a fact that wheat is milled in transit on through rates without any difference at all?

Mr. LINGHAM. Yes; and when we mill that wheat in transit we pay the flour rate from Minneapolis.

Senator LENROOT. I can see that. As a matter of fact, it costs very much more to transport a ton of flour than it does a ton of wheat?

Mr. LINGHAM. There is a greater risk, of course.

Senator LENROOT. And there is more cost in handling it?

Mr. LINGHAM. Yes; but the railroads have been gradually coming to the basis of either equality of all-rail rates or about one-half cent difference between the grain and the products rate. That is not true of the export flour from Buffalo. They have very low export wheat rates in effect from Buffalo to the seaboard.

Senator LENROOT. I know that. A ton of flour is worth a good deal more than a ton of wheat; is there no distinction made on that ground?

Mr. LINGHAM. The railroads do not make it; no.

The CHAIRMAN. Is there anything further, Mr. Lingham?

Mr. LINGHAM. I do not know of anything further, Mr. Chairman. If there is any question I shall be glad to try to answer it.

Representative TEN EYCK. I have one other question with relation to the shipment of flour and wheat: Do they both use water transportation equally, or is there a tendency for one to use it more than the other?

Mr. LINGHAM. When it comes to water transportation the rate on wheat is lower than on flour, because there you get the advantage of bulking. You see, you just pour it into a vessel. On the other hand, when you bulk the wheat you have the transfer charges at both ends.

Senator LENROOT. I was thinking of part water transportation when I asked my question.

Mr. LINGHAM. I thought you referred purely to railroads.

Senator LENROOT. I could not understand how that could be so in connection with that lake transportation. So you do have that advantage in manufacturing at Buffalo over the Minneapolis mills, do you not, when you take water transportation in both cases?

Mr. LINGHAM. I will say that we should have an advantage there. It has so happened that recently the water rates have been so high that very little has moved down. Then, too, we are buying very little by water, because we can not buy by water on sample; we must buy by grade at Duluth, and we prefer to go into Minneapolis and buy the actual grades from the country receipts.

Representative TEN EYCK. But there is no hesitancy on the part of the Minneapolis mills to use water for the transportation of flour any more than they would for the transportation of wheat to the east?

Mr. LINGHAM. No; they do use water. To what extent to-day, I do not know.

Mr. LINGHAM. I do not know to what extent they are using it.

The CHAIRMAN. I desire to submit for the record a statement show-ing the cost of making and distributing flour. This statement pur-ports to give the cost of making and distributing a barrel of flou under three headings—general expense, selling expense, and millin expense.

COST OF MAKING AND DISTRIBUTING FLOUR.

GENERAL EXPENSE.

Stationery and office expense	$0.016
Telephone and telegraph	.022
Interest and discount	.089
Bad accounts	.000
Rent	.007
Administration	.246
General expense	.023
Total	.403

SELLING EXPENSE.

Salaries and commissions	$0.137
Traveling	.075
Advertising	.008
Delivery expense	.047
Miscellaneous selling expense	.008
Total	.275

MILLING EXPENSE.

Insurance	$0.028
Taxes[1]	.016
Depreciation	.078
Miscellaneous milling	.022
Labor	.340
Power and light	.050
Repairs and upkeep	.052
Laboratory expense	.007
Total	.593
Total all expenses	1.270

The CHAIRMAN. If there is nothing further, we are very muc obliged to you, Mr. Lingham. The commission will take a recess unti 2 o'clock.

(Thereupon, at 12.35 o'clock p. m., a recess was taken until 2 o'clock p. m.)

AFTER RECESS.

(At 2 o'clock p. m. the commission reassembled, pursuant to th taking of recess.)

The CHAIRMAN. The commission will come to order. We wil hear Mr. H. P. Strasbaugh, president of the National Canner Association, who is here to give us such information as he desires t place before the commission.

Mr. Strasbaugh, will you please give your full name to the reporte and the name of the organization which you represent and you residence?

[1] This does not include Federal taxes.

STATEMENT OF MR. HARRY P. STRASBAUGH, PRESIDENT OF THE NATIONAL CANNERS' ASSOCIATION, ABERDEEN, MD.

Mr. STRASBAUGH. Mr. Chairman and gentlemen of the commission, my full name is Harry P. Strasbaugh; my residence is Aberdeen, Md. I am president of the National Canners' Association. Anything I may say will be from an individual standpoint, however, because I have not been authorized by my board of directors as to what I shall say, and what I shall say will depend largely upon what you ask me to say or what you indicate you want.

The CHAIRMAN. We would like to have you tell us how you get the farm product and what you do with it and the costs and extent of the distributing processes, so far as they can be stated.

Mr. STRASBAUGH. The canner purchases, as a rule, the raw stock from the farm or grows it himself on his own farm or in his own orchard. A great many canners grow a large percentage of the product that they can.

The method of purchasing corn, peas, and tomatoes is by contracts which are made with the farmer in the first part of the year, during the months of February, March, and April; and at harvest time those crops are harvested and hauled to the cannery, and the canner puts them in cans and hermetically seals them, and those products are preserved for consumption possibly 5 years or 10 years later, if it is necessary to keep them so long.

The CHAIRMAN. Do these contracts that are made with the farmers stipulate an agreed price in advance or is it a proportion of the gross price received by the association?

Mr. STRASBAUGH. I did not hear quite all of that.

The CHAIRMAN. I say, do the contracts with the farmers provide for a stipulated price in advance of production or do they depend on the price which the canner gets?

Mr. STRASBAUGH. The usual form of contract is a given price per ton for the product after the product is delivered to the cannery. That was entirely the custom in the prewar period. Of course, since that time there have been various methods of purchasing raw product during the canning season, and in a good many cases during the canning season they go out and buy for cash. Sometimes they do ship by freight to the cannery, and sometimes they get it by delivering it direct. The canner is anxious to return to prewar conditions as soon as possible, and will eventually return to the custom of buying a field of tomatoes at a given price per ton for delivery during the canning season, in August and September.

The CHAIRMAN. That is to say, that the canner undertakes to insure his supply by contract with the farmer in advance?

Mr. STRASBAUGH. That is the custom.

The CHAIRMAN. As to the price paid to the farmer, what was that?

Mr. STRASBAUGH. Depending almost entirely on the prospective demand, the price of cases and cans and labels. Almost every canner usually arranges with the farmer to pay just as much as he can in order to insure a sufficient acreage to run his plant to the full capacity during the expected packing season.

The CHAIRMAN. Is the National Canners' Association a distributing organization?

Mr. STRASBAUGH. No, sir.

The CHAIRMAN. It is just simply an organization of canners?

Mr. STRASBAUGH. Merely an organization of canners, with no idea of arranging prices or controlling prices or having anything whatsoever to do toward the making of prices of canned product or raw stock or anything else.

Representative MILLS. What is the purpose of the association?

Mr. STRASBAUGH. The purpose of the association is to better conditions in the canning business as an entirety. For instance, to pack a more sanitary product; to discover more scientific methods of canning; more scientific methods of handling the canning industry as a whole; but with no idea whatsoever of controlling prices or regulating prices or intimating what prices should be paid in any way whatsoever.

Since its organization in 1907 the National Canners' Asssociation has bee[n] working for the best interests of the consumer of the products of the industr[y] thereby endeavoring to popularize canned foods and materially increase co[n]sumption through the merit of the same.

This organization has no capital stock, nor is it organized for profit. It do[es] not produce, buy, nor sell.

Its principal efforts have been directed on the lines of scientific research. [It] owns and conducts its own research laboratories in Washington, officered by m[en] well recognized in the scientific world. The findings of the laboratory are fu[r]nished to nonmember canners as well as to members. It has also establish[ed] and financed separate scientific research at Harvard University under the dir[ec]tion of the national research council of the National Academy of Sciences. [It] has established independent researches at the University of California a[nd] Leland Stanford University and is at present making arrangements which co[n]template a considerable enlargement of scientific research for the benefit of t[he] industry.

It has established a raw-products research bureau, and through this bure[au] and the executive officers of the association some of its accomplishments ha[ve] been—

1. Agricultural cooperation.
2. Cooperation with State agricultural colleges.
3. Cooperation with the Department of Agriculture.

Other accomplishments are—

4. Cooperation with State legislatures for the purpose of securing the mo[st] advanced sanitation laws.
5. Cooperation with the Forest Products Laboratory in securing improv[ed] shipping boxes.
6. Safety devices.
7. Aiding and assisting the enactment and enforcement of the food and dru[g] act.
8. Establishing uniform cost-accounting systems so that individual canne[rs] can each intelligently ascertain his own costs.
9. Insurance.
10. Efficiency of the industry.
11. It has increased the energy of effort among canners.

During the war some of its activities were—

1. Encouragement of the largest possible production.
2. Assisting in the allocation of milk for the Army, Navy, Marine Corps and Red Cross until the Government was able to create a proper agency to handl[e] the same.
3. Rendering all possible assistance to the Army and Navy and food boards in locating immediate food supplies.
4. Contributing its scientific laboratories for collaborative purposes.

It requires, under its present by-laws, that the members of the associatio[n] shall agree to produce a wholesome product from wholesome raw stock in [a] sanitary plant conducted in a sanitary manner. Its by-laws provide for the expulsion of members who do not comply with these sanitary requirements.

The CHAIRMAN. Does the association do anything in the way of relating output to market?

Mr. STRASBAUGH. I did not quite hear the question.

The CHAIRMAN. I say, does the association do anything in the way of relating output to market or directing the distribution of the product?

Mr. STRASBAUGH. No, sir; nothing whatsoever.

The CHAIRMAN. It is a welfare association entirely?

Mr. STRASBAUGH. Absolutely; yes, sir.

Representative MILLS. Do you exchange information as to market conditions?

Mr. STRASBAUGH. No, sir.

Representative MILLS. Do you exchange information as to prices?

Mr. STRASBAUGH. No, sir.

Representative MILLS. You do not furnish information as to the prices or marketing conditions to any of your members?

Mr. STRASBAUGH. No, sir; we never have, sir.

The CHAIRMAN. Can you give us any information as to the methods of distributing canned products?

Mr. STRASBAUGH. The canner accumulates the raw stock and cans it in times of plenty, and in season, to distribute it in times of demand. The canner, as a rule, disposes of his canned foods through the merchandising brokers in different cities of the United States. The custom of that broker is to visit the grocery trade, or wholesale grocery, in some sections of the country, or chain stores, and he makes sales to the grocer and to the distributors, sending the order in to the canner for confirmation, and after confirmation the product is shipped according to the memorandum or selling contract which he sends in there. Then the foods are shipped in accordance with his memorandum of sales, and contracts to the buyer, who, in turn, settles for those goods usually in 10 days; sometimes 30 days; and sometimes 60 days; but the majority of canned foods are sold subject to 1½ per cent discount if paid in 10 days.

The wholesale grocer, in turn, distributes these goods to the retailer, and the retailer distributes to the consumer.

The CHAIRMAN. Can you give us any figures as to the spreads that occur in these various steps as to prices of the product?

Mr. STRASBAUGH. There is a wonderful variation in the spread, depending upon the location of the distributor, and also the distributor's opportunity for business so far as volume is concerned. Some of the smaller retailers will, for instance, sell a can of tomatoes for several cents a can more than the chain stores, or more than a large retailer; possibly for the reason that he does not sell as many; the volume of his business is not so much, and his proportionate expense of handling them per can is more.

Representative MILLS. Has your association ever gotten up any figures as to prices, for instance, that the farmer receives for his product—the farm prices?

Mr. STRASBAUGH. No, sir; our association has always endeavored to avoid prices in any way whatsoever.

Representative MILLS. Have you ever gone into the question of freight rates?

Mr. STRASBAUGH. We have a traffic committee that follows the freight conditions from time to time, whenever there is necessity for a hearing, but we have never done very much in the freight direc-

tion, however. The freight conditions, however, are seriously affec ing us at this time and very seriously affecting the consumption c canned foods. For instance, the freight rate from Aberdeen, Md., t Baltimore is something like 19½ cents per hundred per carload, an say, about 27 cents per hundred for less than carload. The ra from Aberdeen to Tampa, Fla., is $1.60 per hundred in carload With these excessive freight rates, it naturally puts us out c business in Tampa, Fla. After the freight rates are added, to th cities in Maryland and Delaware, the price is so excessive that w find we are not distributing anything like as many canned foods i that direction, or to any of those distant points, as we did before.

Representative MILLS. In presenting your case, I presume, yc got your facts together and presented them to the Interstate Con merce Commission, or to the railroads, with a view to obtainin reduced rates?

Mr. STRASBAUGH. You say you suppose we have done that already

Representative MILLS. Have you done that?

Mr. STRASBAUGH. Mr. Berry, of Reed, Murdock & Co., of Chicag has attended one or two hearings on traffic in Chicago recently- within the last six months, but I do not think that he has presente any definite claims as yet, sir.

Representative MILLS. In connection with these figures, have yo gone into the question of the price paid to the farmer and the co of canning, and the price paid by the ultimate consumer, and th percentage of the freight rate to the total cost to the consumer?

Mr. STRASBAUGH. I have given considerable consideration to tha particular item of freight, and if we were to consider the freight o the iron ore to the furnaces, and from the furnaces to the steel mill and from the steel mills to the tin-plate factories, and from the tir plate factories to the can shops, and from the can shops to the can nery, and from the cannery to the distributor, and from thence t the retailer I would imagine that about half of the price—certainl from 33⅓ to 50 per cent of the cost of the canned foods would hav been paid in freights by the time these canned goods reach the ulti mate consumer, because we have paid freight directly and indirectl about six or seven times. And that, naturally, under present condi tions, is a large factor in increasing the cost of the can of corn o the Hawaiian pineapple or California peaches to the consume Although the boat rates from California at the present time are con siderably lower than the rail rates, and the seaboard cities in th East have the benefit of a very much lower rate on that account But then just as soon as you commence to distribute from the Atlan tic seaboard cities to the inland cities, then you commence to pile u the freight again.

The CHAIRMAN. You are not able to give us any figures at all a to the spreads in price as between the consumer and the farmer?

Mr. STRASBAUGH. Only in the way of percentages. I would say tha the freight paid is five or six times, as I have explained, and woul certainly equal from one-third to one-half of the ultimate cost to th retailer.

The CHAIRMAN. Can you give us any idea as to what makes up the other two thirds of the cost?

Mr. STRASBAUGH. The cost of the product, the cost of canning that product, and the cost of employees, drayage, and distribution.

The CHAIRMAN. Can you give us any accurate figures of percentages that illustrate the various amounts of those costs?

Mr. STRASBAUGH. Well I can give you the cost of a case of cans.

The CHAIRMAN. Very well, do that.

Mr. STRASBAUGH. The empty cans in a case at the present time would cost 75 cents, laid down at the canner's factory.

The CHAIRMAN. How does that compare with the cost of cans in 1913, or thereabouts?

Mr. STRASBAUGH. I am figuring cans at $25 per thousand, as against a price for cans in 1913 of $14.75.

The CHAIRMAN. What difference is there in the price of the case?

Mr. STRASBAUGH. Cases during the prewar period—the No. 2 cases, for example, and that is a fair example, sold for 7½ cents each; a year ago they sold for 23 to 25 cents each. These same cases can be bought at the present time for probably 11½ to 12 cents each.

The CHAIRMAN. Take, for instance, a case of corn. What is the price of corn now by the case at the factory?

Mr. STRASBAUGH. I would say a dollar a dozen; $2 a case of 24 cans.

The CHAIRMAN. How does that compare with 1913?

Mr. STRASBAUGH. It was $1.70 a case in 1913.

The CHAIRMAN. That is a difference of about 30 cents a case?

Mr. STRASBAUGH. Yes, sir.

The CHAIRMAN. It is higher now than it was in 1913?

Mr. STRASBAUGH. Yes, sir.

The CHAIRMAN. Is that on the basis of this year's pack or last year's pack?

Mr. STRASBAUGH. That is on the basis of this year's pack. Last year that same corn was $2.70 a case; in July, 1920, it was $2.70 a case; in January it was $1.70 a case.

The CHAIRMAN. It is a little higher now than it was in January, then?

Mr. STRASBAUGH. Yes, sir.

Senator LENROOT. What do you give as the difference in the case and can now and before the war—75 cents a case?

Mr. STRASBAUGH. In the prewar period it was 7½ cents; a year ago the same case sold for from 23 to 25 cents.

Senator LENROOT. You gave the case and can now as 75 cents?

Mr. STRASBAUGH. Yes.

Senator LENROOT. What was the price of the case and can before the war?

Mr. STRASBAUGH. What year do you want?

The CHAIRMAN. 1913.

Senator LENROOT. That is what the chairman asked, 1913.

Mr. STRASBAUGH. In 1913 the price of cans was $17.25. That was 1¾ cents—24 cans to the case—42 plus 8, we will say 50 cents a case, in 1913.

Senator LENROOT. As against 75 cents now?

Mr. STRASBAUGH. Yes; those are approximate figures, gentlemen.

Senator LENROOT. Oh, I understand; I do not expect to get it entirely accurate.

Mr. STRASBAUGH. I am just figuring this offhand. I will be very glad to give you a brief later on those costs.

The CHAIRMAN. We will be very glad to have it. Now, can you give us any information as to what a case of corn was sold for by the wholesaler in 1913 and 1920 and now?

Mr. STRASBAUGH. Well, I imagine every wholesaler varied somewhat as to his handling charges, depending upon his overhead, and I could not give you the exact figures of any wholesaler, but the wholesaler as a rule has handled canned foods on a very close margin. In the last year I know he sold a great many at anywhere from 75 cents a dozen to $4 a dozen of some products less than the cost.

Senator LENROOT. You have given the present price as $2; 75 cents of that is for the case and can. Now, will you tell us about the other $1.25?

Mr. STRASBAUGH. In order to give you anything intelligent in regard to that, I would have to submit you a brief, because there are a number of items that come in there: The cost of the corn, for instance, at $20 a ton; the corn would be from 60 to 70 cents per case; that would be paid to the grower for the corn. Suppose we say 70 cents. Now, labor would probably be 30 to 35 cents a case; say 35 cents.

Senator LENROOT. That is direct labor, I take it?

Mr. STRASBAUGH. Direct labor in the factory; yes, sir. Now, there are such items of overhead as insurance, coal, and maintenance of machinery, and such as that.

Senator LENROOT. Now, would you wish us to understand that 25 cents covers all overhead, insurance, taxes, and profits?

Mr. STRASBAUGH. No, sir; I would not.

Senator LENROOT. Then I would like to go back to the other question; you are selling it for $2?

Mr. STRASBAUGH. Yes; approximately, I would say.

Senator LENROOT. That 25 cents a case——

Mr. STRASBAUGH (interposing). Yes; at the present time where a man is selling at $2 a case I do not believe he has any profit in it. In fact, I think he has 10 or 20 cents a case loss. And he might have 30 cents a case loss if he has a short pack this season and is short of goods.

Senator LENROOT. In other words, you would have us understand there is no profit at this price?

Mr. STRASBAUGH. Absolutely no profit at present prices. There are losses to the canner.

Representative TEN EYCK. How many cases do you make out of a ton of corn?

Mr. STRASBAUGH. About 30 cases is an average estimate.

Representative TEN EYCK. About 30 cases?

Mr. STRASBAUGH. Yes, sir.

Representative TEN EYCK. How large are your containers?

Mr. STRASBAUGH. I am talking from the standpoint of corn, which is in a No. 2 can and holds about 19 ounces; 19 or 20 ounces, total net weight of contents.

Representative TEN EYCK. What is that in liquid measure?

Mr. STRASBAUGH. I have never noticed that; I could not answer that question, sir. I have handled canned corn a great many years but never compared it with pints or quarts. But I would say probably not more than a pint and a quarter; 16 ounces to a pint, and this is 19 ounces—about a pint and a quarter.

Representative MILLS. What do these two cases sell for; what does the wholesaler sell it for? I suppose that varies with the freight rate?

Mr. STRASBAUGH. It varies; for instance, we can ship to some points much cheaper; from Baltimore to Philadelphia is——

Representative MILLS (interposing). What does the wholesaler sell it for?

Mr. STRASBAUGH. He has his drayage and freight, I suppose, and figures 10 per cent on that, after he has paid his freight and drayage.

Representative MILLS. You do not know what it is selling for to-day, do you?

Mr. STRASBAUGH. I am not in position to give you the prices of the wholesale grocers of the United States; no, sir. I have no way of getting them.

Senator LENROOT. Do you know what it is retailing for?

Mr. STRASBAUGH. I would say probably 10 cents a can; $2.40 a case. Probably if you take it in lots——

Senator LENROOT (interposing). That can not be. Do you mean to say that between your factory price and the retailer's price there is only a margin of 40 cents a case?

Mr. STRASBAUGH. I mean to tell you, sir, that corn to-day is selling at $2 a case in the Delaware and Maryland factories.

Representative MILLS. And retailing in Washington at $2.40?

Mr. STRASBAUGH. Yes; I was told this morning it was retailing at 10 cents a can at the chain stores, by Mr. Hunt; that is at the chain stores. There is no delivery, of course, in that. The chain stores do not deliver.

Representative SUMNERS. Are those prices that you have given the normal prices; do those prices indicate the usual margin of profit, or the spread in prices of the canned goods in this country?

Mr. STRASBAUGH. No, sir; that is the conditions that have been governing the canner in the last 9 or 10 months. In the pre-war period——

Representative SUMNERS (interposing). The same conditions govern the retailer.

Mr. STRASBAUGH. I think I said before you came in that the same product that sells for $1.70 a dozen in Delaware in carload lots would retail in the prewar period at 10 cents a can, and in some instances three cans for a quarter. That is, in near-by cities, like Philadelphia and New York. Now, if that product was shipped to Pittsburgh it might be more. On the other hand, the canner of the Central West would probably take care of the Pittsburgh business, and it would probably be sold on the same basis. But in these times, gentlemen, the canner is selling his product below cost.

Senator CAPPER. Due to oversupply, or what?

Mr. STRASBAUGH. It is due to overproduction, or underconsumption, or deflation, or the lack of capital and the need of money in the canner's business; the financial condition of the canner in the last year. At the beginning of the war the canner was requested to pack as many canned foods as he could pack, because it was necessary to have canned foods in order to help win the war. Unfortunately, the canner was told that he was sure to be given profit on his canning, and the result of that was that in some sections some

canners paid almost any price for raw stuff. For instance, canned tomatoes which sold in the prewar period for $10 or $12 per ton were bid up as high as $60 a ton. The result was that the cost of packing was excessive in a majority of cases during the war. The Army and Navy commandeered about 20 per cent of the corn, and 45 per cent of the tomatoes packed during the war. When the armistice was signed, it left the Government with probably 1,000,000 cases of tomatoes and 2,000,000 cases of corn on its hands. About six months after the armistice those tomatoes and corn and some of the peas and other products were marketed from house to house at 11 cents a can for tomatoes that cost the Government $1.90 a dozen. The canner was left with some of his pack still unsold, and he could not sell his product at 11 cents a can, competing with these retail prices of the Government. And the result was that he was carrying his pack at a loss which would bankrupt some of the canners.

Representative Ten Eyck. What did you pay for your corn in 1913?

Mr. Strasbaugh. Corn in 1913 sold as low as 55 cents.

Representative Ten Eyck. Fifty-five cents for what?

Mr. Strasbaugh. A dozen, or $1.10 a case.

Representative Ten Eyck. I know, but how much a ton?

Mr. Strasbaugh. The raw corn?

Representative Ten Eyck. Yes; the raw corn.

Mr. Strasbaugh. I would say about $10 a ton, sir.

Representative Ten Eyck. Ten dollars a ton, did you say?

Mr. Strasbaugh. Yes; $10 or $12 a ton.

Representative Ten Eyck. I notice here that corn cost you 2¼ cents a can, and the spread between the cost or the sale price to the farmer, and the selling price to the chain stores, which is the most economical way of distribution, is four hundred times more than the farmer gets for it.

Mr. Strasbaugh. Yes; but look at the work and the can.

Representative Ten Eyck. I understand that; I am merely getting at the spread.

Mr. Strasbaugh. Yes.

Representative Ten Eyck. Now, if that is true, we could add a couple hundred more times spread into the ordinary grocery store, could we not; they must get at least 15 cents in the ordinary store?

Mr. Strasbaugh. I would say so; 12½ to 15 cents.

Representative Ten Eyck. Now, at the time you were paying $10 a ton to the farmer, you were getting a little better price——

Mr. Strasbaugh (interposing). When we were paying $10 a ton to the farmer we were getting a little profit out of the canning business; to-day we are not.

Representative Mills To-day you are paying 2¼ cents a can for your corn and losing money?

Mr. Strasbaugh. Yes, sir.

Senator Lenroot. Was there a large overproduction during the war?

Mr. Strasbaugh. Yes; there was considerable.

Senator Lenroot. How did that come about?

Mr. Strasbaugh. There was considerable overproduction, but the difficulty that the canner experienced generally was the trouble that

confronted the wholesale grocer when sugar broke from 22½ and 30 cents a pound down to 15 cents, and 10 cents, and 7 cents, and 6 cents, and rice and coffe and almost every other commodity that was in the wholesale grocer's warehouse depreciated accordingly. The result was that since last August until about 60 days ago it has been almost impossible to sell the wholesale grocer a couple thousand cases of corn, whereas in the prewar period he would be glad to purchase 10,000 or 15,000 or 20,000 cases of corn. But when the wholesale grocer lost money on the declining price of sugar, then the canner was unable to sell his product at cost or anywhere near cost. For example, corn which cost $1.30 a dozen back in 1920 was marketed at as low as 75 cents; some of it was marketed and sold as low as 75 cents a dozen.

Senator LENROOT. There has been more corn canned since money has become easier all over the country. The grocer can buy some food for less, and is buying some for less, such as canned corn, for example, which is getting back nearer to the cost of replacement. Corn that cost last year $1.30 will cost this year close to $1.10 or $1.20 to pack this year. Now, the canner that is selling corn at $2 is paying less now. If this is a poor pack, he will find that he is selling a lot of corn at $2 that cost him $2.30 to pack, as against $2.60 a case a year ago.

Representative SUMNERS. When you figure the cost of packing, you estimate some interest on your investment, and overhead, and everything of that sort?

Mr. STRASBAUGH. Most undoubtedly; yes.

Representative SUMNERS. So you have less loss of profit in keeping your plant going, even if you lose——

Mr. STRASBAUGH (interposing). If we keep our plant closed for a season our loss is heavy in the deterioration and depreciation of the machinery, and rust, and so on.

Representative SUMNERS. And you have lost customers, too, I suppose?

Mr. STRASBAUGH. Sir?

Representative SUMNERS. You have lost your trade, too?

Mr. STRASBAUGH. Yes; and lost our trade also. But notwithstanding that, there would not be, I would say, over 50 per cent the pack of corn this year, and not 60 per cent of the pack of tomatoes on account of these conditions and the inability of the canner to finance himself, because he has been broken down last year when he could not market his goods.

Representative MILLS. Do you think the wholesale grocer was very heavily stocked in the first half of 1920?

Mr. STRASBAUGH. Yes; I think he was.

Representative MILLS. You think he was pretty well loaded up?

Mr. STRASBAUGH. Yes, sir.

Representative MILLS. Now, was he loaded up when the armistice came?

Mr. STRASBAUGH. I think fairly well, sir; yes, sir; at the high prices.

Representative MILLS. During the period of expansion and speculation, you think the wholesale grocer was doing what everybody else did, buying on a rising market with a view to higher prices later on?

Mr. STRASBAUGH. Well, I suppose he acted like the ordinary hu man business man in that case.

Representative MILLS. Do you think that is the condition to-day? You suggested there had been a change 60 days ago. Do you thinl to-day he has largely disposed of his surplus product on his shelves?

Mr. STRASBAUGH. Yes; I think he has, and disposed of it at a severe loss, especially in canned foods.

Representative MILLS. Yes; I think that is true; but do you thinl he has reached a place where he is going to buy?

Mr. STRASBAUGH. Yes; in canned goods he has begun to buy.

Representative MILLS. He has begun to buy?

Mr. STRASBAUGH. Yes; in small quantities, compared with his pur chases previously. He is buying a thousand cases where he bough 5,000 cases before. Six months ago he would buy only 50 cases; th same man that is buying a thousand cases to-day. I think eventuall the condition will right itself; and as soon as we right ourselves t the prewar condition the canner will function properly. He is no able to function this year because last year he had his money al tied up and could not pay his bills; he could not pay his growers. I know of canners that sacrificed corn last year at 80 cents a dozen t pay their growers that cost them $1.30 to pack. They did not sell i all at that price, but they had to sell sufficient of it to pay their bills and in some cases it took everything they had; in some cases not quit all. But every canner got his proportion of that loss.

Senator LENROOT. Do I understand that the canners last year wer not able to secure a normal line of credit, or do you mean that by reason of a lack of market they required an abnormal line of credit and were unable to get it?

Mr. STRASBAUGH. On account of the cost of packing last year, which was as high last year, or higher—equally as high as at any time during the war period—it took $1.30 to finance the packing of a dozen cans of corn, whereas in the prewar period 60 cents a dozen would have done it. Then, when the wholesale grocer made his loss on sugar he refused to buy the product from the canners, because he felt that he could not afford to do it, and the canner who canned held these canned goods himself, which ran into millions of dollars, which promptly under ordinary circumstances would have been distributed throughout the United States, and the money would have come back for them. The result was that that gave the canners of this country the requirement of a considerable amount of money—more than they ever required before—because they could not convert their product into money. And when you went to the bank to borrow money, every time you approached a banker you heard the same story about credit. But I do not think any canner was able to borrow enough money to carry his product until he could get not a profit but his replacement value.

Senator LENROOT. Was that due wholly to the lack of credit or was it due to the uncertain market and the uncertainty of the hazard of credit? In other words, was there a shortage of credit, assuming there was no question about the surety?

Mr. STRASBAUGH. I think there was a shortage of credit.

Senator LENROOT. You think there was a shortage of credit everywhere?

Mr. STRASBAUGH. Yes; and I think it was brought on in that way; we could not distribute any of our goods from August on. And the result was we had to carry that large load, whereas ordinarily it would have been distributed to the different cities in the country, and the money returned. But tight money was the trouble. That was not only the trouble with the canner, but every time you approached a banker you were told how impossible it was to get money. And it was hard to get money on any security, even on warehouse receipts. I tried to get some money in Philadelphia on warehouse receipts, and finally succeeded, but I had difficulty in borrowing money on a warehouse receipt, something like $20,000.

Representative SUMNERS. Did the banks seem to have any trouble in rediscounting their paper at the Federal reserve banks?

Mr. STRASBAUGH. Yes; we got our share of that talk, that we could only rediscount so much, or certain percentages. And, of course, the rates were higher.

Senator LENROOT. That did not apply in the New York district, did it?

Mr. STRASBAUGH. Oh, yes; we could not borrow all the money we wanted last year.

Senator LENROOT. You are not referring to the progressive rate, are you?

Mr. STRASBAUGH. No, sir; I don't think it was raised in the Richmond district. I don't think it was ever above 6 per cent.

Representative MILLS. You were not referring to the progressive rate, but simply to a raise in the rediscount rates?

Mr. STRASBAUGH. Yes, sir.

Representative MILLS. Let me ask you if you have disposed of your surplus product?

Mr. STRASBAUGH. No, sir; we still have some of it; 40 per cent, possibly.

Representative MILLS. But the balance has been liquidated?

Mr. STRASBAUGH. Liquidated at a very heavy loss to the canners.

Senator LENROOT. Is your hold-over any more than normal now?

Mr. STRASBAUGH. It is little more than normal, but we have more than normal conditions to contend with, and that makes it seem more, for the reason that the wholesale grocer is not buying in the same quantities as he bought before.

Senator LENROOT. In other words, you are holding more than you did before?

Mr. STRASBAUGH. Yes, sir.

Representative MILLS. How does that $2.40 a case compare with the price in 1913?

Mr. STRASBAUGH. The lowest price in January, 1913, for corn was 55 cents a dozen, or $1.10 a case. But that was exceptionally low at that time.

Representative MILLS. Was that at the factory?

Mr. STRASBAUGH. That was at the factory.

Representative MILLS. What would it retail for at that time, do you suppose?

Mr. STRASBAUGH. Possibly 55 cents at the factory—the wholesale grocer would probably sell it at 70 cents, and it would probably retail at 10 cents a can, or three cans for a quarter.

Senator CAPPER. Could you handle that product profitably at 55 cents?

Mr. STRASBAUGH. No, sir; there was some condition at that time, or lack of demand at the time, that made it sell at 55 cents per dozen or $1.10 per case—about 65 cents would give the canner a reasonable profit in the prewar period when the market remained practically stationary. If there was a 5-cents fluctuation it was considered a big fluctuation.

Senator LENROOT. How long will a pack keep?

Mr. STRASBAUGH. Some canned foods have been opened after they have been kept 40 years and declared good by those who examined them.

Senator LENROOT. Let me ask you this, then: How long is it considered safe to keep them?

Mr. STRASBAUGH. Just as long as the can will remain intact and keep the contents free from air. Now, during the war we got into inferior tin, just as we got into inferior things everywhere, which were made by people who did not care. And I do not think the kind of tin we got during the war would keep as long as the tin we got in the prewar period. But ordinarily a can of tomatoes or corn could be kept and would be good after four or five years. I have kept them in my own house that long and eaten them at my own table without any thought of injury to the person who ate it. It depends on how you keep them; whether you keep them in the dry and whether they are kept in a moderately tempered room or in a heated room.

Senator LENROOT. After it has been kept for that length of time is it more difficult to sell?

Mr. STRASBAUGH. I think everybody prefers this year's pack in preference to last, to the extent of 2 or 3 cents a dozen. But I doubt whether you and I could tell the difference in the taste.

Senator LENROOT. That is what I mean; could you tell in any way?

Mr. STRASBAUGH. I think a can of corn is about as good when it is four or five years old, if it has been kept properly and in a proper place.

Senator CAPPER. Have your labor charges been reduced this year?

Mr. STRASBAUGH. In the few canneries that are operating, which started to operate in the last few days around my place, they are paying 30 to 35 cents an hour, as against 40 and 50 cents an hour last year. But the laboring people have not made up their minds that they want to do much work at that figure. When canned foods are advancing, as they say—for instance, I saw an article in a Baltimore paper the other day by a housewife about every article of food going up in price again; she talked about wages going down and all kinds of food going up. These people do not understand that it was down so low that everybody was selling away below cost in order to get money to exist. And now when we are coming back to nearer the cost, it is going to compel, not high prices, but enough to pay at least expenses, but high when compared with the previous prices.

Senator LENROOT. Do you think canned foods, at the retail end of the line, generally speaking, did come down proportionately?

Mr. STRASBAUGH. Proportionately to the manufactured cost?

Senator LENROOT. Proportionately to the wholesale cost, did the retail price come down, generally speaking?

Mr. STRASBAUGH. I think the retail price was a little slower in coming down than the wholesale price, and a little slower than the canners' prices; but the retailer is down to-day.

Senator LENROOT. Is he down on canned foods?

Mr. STRASBAUGH. Yes, sir.

Representative MILLS. He fought a little harder before coming down?

Mr. STRASBAUGH. I did not understand you.

Representative MILLS. He held out a little longer before coming down?

Mr. STRASBAUGH. He held out longer, because I don't think he was pushed as hard for money.

Senator LENROOT. He might not have taken his loss.

Mr. STRASBAUGH. He might not; he might have got out on his holdings before stocking up with new goods.

Representative SUMNERS. During this period of low prices that you have been referring to, when you were not able to sell at the cost of production, and were compelled to carry over a considerable part of your pack, do you know whether or not there was any general pressure from the banks that held the paper of the canners to force liquidation? Was there anything unusual about it?

Mr. STRASBAUGH. I do not think there was in our district, sir; not in the State of Maryland and around Baltimore and around the Eastern Shore; not to any great extent. I think the difficulty that the canner faced was that he could not borrow quite enough money to pay off his growers and pay his bills for the 1920 pack.

Representative SUMNERS. If he had been able to borrow enough money—what he then considered to be enough money—would he then have increased his pack above what his pack turned out to be?

Mr. STRASBAUGH. I think he would have packed more goods this year, sir.

Representative SUMNERS. What effect would that have on conditions with the canner?

Mr. STRASBAUGH. I think that would have the effect of holding the market very much more steady 12 months hence—within the next 12 months.

Representative SUMNERS. Your judgment is that by reason of inability to pack the normal amounts there will be a greater rise in prices than if you had been able to use all your machinery and pack normally?

Mr. STRASBAUGH. I think undoubtedly so. I think a number of canners did not pack this year, because they could not arrange their finances. And another thing, there is a lot of fruit that will not go into the cans this year, because of the frost early in the season and various freezes throughout the country; that is true in this section of the country, and I think California also was affected likewise.

Senator LENROOT. Let me see if I understand your answer to Mr. Sumners. You say if there had been a larger pack last year——

Mr. STRASBAUGH (interposing). I understood he said this year.

Representative SUMNERS. No; last year.

Mr. STRASBAUGH. The canner did not feel the stress of money so much until he tried to pay for his packing.

Representative SUMNERS. In 1920?

Mr. STRASBAUGH. In 1920.

Representative SUMNERS. By reason of that and the stringency in the money market you were not able to put in the full pack this year, 1921?

Mr. STRASBAUGH. On account of the experience of last year, not being able to sell the product, and not being able to borrow enough money, he could not hold this product and borrow money to finance this year's pack.

Representative MILLS. And that is the reason that he could not sell last year's pack?

Mr. STRASBAUGH. Yes, sir.

Representative MILLS. It was not shortage of credit?

Mr. STRASBAUGH. Yes; but if he could have borrowed money and kept his product, in keeping with the situation that he had to face, he could have packed.

Senator LENROOT. Do I understand if there had been a larger pack it would maintain a higher level of prices; is that what I understood you to say?

Mr. STRASBAUGH. Well, I do not quite understand you on that, sir. If you will repeat that, please.

Senator LENROOT. As I understood your answer to Mr. Sumners you stated if there had been a larger pack this year, or last year, it would have tended to maintain a higher price, or stability of price?

Mr. STRASBAUGH. Not higher price, but more stability in price. I referred to the abnormal prices last year. For instance, we packed the normal pack last year, but could not market it.

Senator LENROOT. I understand.

Mr. STRASBAUGH. I meant our inability to pack now. We are going to pack probably 50 per cent or 60 per cent of the normal pack.

Senator LENROOT. When do you begin financing for this year's pack?

Mr. STRASBAUGH. The beginning for corn and tomatoes is in August.

Senator LENROOT. This month?

Mr. STRASBAUGH. Yes, sir.

Senator LENROOT. Do I understand that you are talking about the difficulty of financing last year or the difficulty of financing now?

Mr. STRASBAUGH. I am talking about the difficulty of financing now, and that it is deterring a lot of canners this year, because they are already carrying a large load.

Representative MILLS. Didn't you tell me you had pretty well disposed of stocks and liquidated this loss?

Mr. STRASBAUGH. In the last 60 days probably 40 per cent of that stock has been disposed of.

Representative MILLS. You could get all the money you want now?

Mr. STRASBAUGH. Yes; but it was necessary to tell our growers in February and March what we could do in order to grow this crop.

Representative MILLS. I understand.

Representative TEN EYCK. In other words, you worked about six months ahead?

Mr. STRASBAUGH. Yes; it requires the time to grow the product.

The CHAIRMAN. As to the crop marketed throughout the year, is that carried by the wholesaler; who carries the pack after it is packed, the canner or the wholesaler?

Mr. STRASBAUGH. That varies somewhat every year; that is, it did in the prewar period, sir. Usually the wholesale grocers carried it, but in the last six months or a year the tendency of the wholesale grocers has been to let the canners carry all the product, and to buy only as he wants it, and in small quantities, which is contrary to what the custom was in the prewar period, when the grocer was able to finance himself properly. In those cases the canner would usually sell all his pack within 90 days after it was produced, and a good many sales were made in that way.

The CHAIRMAN. It was sold for forward delivery?

Mr. STRASBAUGH. A great many canners sell that way; sometimes 75 per cent of it is sold for forward delivery, sometimes six months prior to the production of the product.

Senator LENROOT. When the canner sells his product to the wholesaler, does that protect him against price throughout the year, as a rule?

Mr. STRASBAUGH. No, sir; there has been very little of that.

Senator LENROOT. I understood that was a common practice.

Mr. STRASBAUGH. No, sir. It might be with a few corporations. I don't think the canners in the East have ever done that to any extent.

Senator LENROOT. What inducement is there to the wholesaler to buy for a year; is he speculating?

Mr. STRASBAUGH. To a certain extent business is more or less speculation.

Senator LENROOT. I am not speaking of it in that line.

Mr. STRASBAUGH. He buys for a certain trade, for his customers, from year to year.

Senator LENROOT. And he assumes that he will get that same price at the end of the year to compensate him for carrying it over?

Mr. STRASBAUGH. He assumes, from the crop outlook and his own judgment, that he had better buy. And if he considers the situation is such that he had better buy he makes his contract accordingly.

The canner, on the other hand, agrees to take the crop from a grower—for example, 600 acres or 1,000 acres—and he takes all the crop on that acreage, whether he gets a half yield or a full yield or a bumper crop; the canner must make his contract to take the yield of the entire acreage, and the canner takes that chance.

Senator LENROOT. He gets it at the same price?

Mr. STRASBAUGH. At the same price.

Senator CAPPER. Do transportation rates figure much in the business?

Mr. STRASBAUGH. Tremendously so; yes, sir.

Senator Capper. Is there much complaint now by the canners as t the transportation rates?

Mr. Strasbaugh. I think everybody feels that we are paying to much for transportation rates and that it lessens the consumption o canned foods in distant cities that much,

Senator Capper. I understand now the growers are receiving les money and that labor has been reduced to some extent and you ai getting a less price from the wholesaler; all the other factors in th canning business have been reduced except transportation charge which are the highest they have ever been.

Senator Lenroot. What do you pay for labor?

Mr. Strasbaugh. At the present time, as I said, they are payin from 30 to 35 cents an hour.

Senator Lenroot. What was it before the war?

Mr. Strasbaugh. From 18 to 20 cents—in some cases 15 cents—jus for ordinary labor. Now, to the skilled machinists who work on th closing machines and on the boilers and on the process kettles we pa more than that. It is usually $200 or $300 for a season. The cannin season lasts, for corn and tomatoes, about six weeks, and the averag running time is 300 hours. A corn factory is not run more than 30 hours a year.

Representative Ten Eyck. What other things do you manufactu in them?

Mr. Strasbaugh. Nothing.

Representative Ten Eyck. In the meantime does the factor close down?

Mr. Strasbaugh. A corn factory closes down; a pea factory close down. Of course, a fruit factory catches the various varieties o fruit in a season.

Representative Ten Eyck. Can you use the various pieces of ma chinery on the canning of fruits?

Mr. Strasbaugh. Yes; on canning fruit, but you can not on pea and tomatoes.

The Chairman. You do use part of the same machinery on cor that you do on peas, do you not?

Mr. Strasbaugh. Yes; if you have a corn plant and a pea plan adjoining, the closing apparatus could be slipped and used from on plant to the other.

The Chairman. They have a plant in my own town where the pack both peas and corn, and my opinion is they use a great deal o machinery for the two processes; that a good deal of the machiner is the same.

Mr. Strasbaugh. What commodities?

The Chairman. Corn and peas.

Mr. Strasbaugh. I do not know what machinery would be th same on corn and peas until you get to the closing machine. The firs machine is the separator on peas, and for corn it is the corn huskers.

The Chairman. Of course they are not the same.

Mr. Strasbaugh. And you run from the separators to the graders.

The Chairman. But for the canning process they are practically the same?

Mr. Strasbaugh. The actual cooking process is the same; yes. But there are very few canners that pack both corn and peas in the

same factory. They have separate process kettles; they usually have, on account of the expense of conveying the product to the kettles from some distant point, which would be the same as you would have to ship the products from one place to another.

Senator LENROOT. What territory will a factory cover?

Mr. STRASBAUGH. So far as the raw stock is concerned?

Senator LENROOT. Yes.

Mr. STRASBAUGH. The average corn factory will probably have corn hauled within a radius of 5 miles. A pea factory may sometimes have peas come for 10 or 20 miles, where they hull the peas, and ship the shelled peas for 10 or 20 miles to the cans.

Senator LENROOT. Is railroad transportation ever used in shipping the product to the factory?

Mr. STRASBAUGH. Not peas or corn, because they would heat in transit, and would spoil. Tomatoes are sometimes shipped by rail or boat to the canning factories. Georgia peaches are sometimes shipped from Georgia to Baltimore, and are canned there. Also some few pineapples are canned in Baltimore.

Senator LENROOT. Your conclusion is that we can not find anything wrong in the business from the standpoint of the producer or consumer?

Mr. STRASBAUGH. There is absolutely nothing wrong except the abnormal conditions that prevail. Give us prewar conditions—let competition prevail in the distribution, and give us sufficient money to run our business conservatively, and we will function just the same as we did formerly and serve the consumer just as well, and I hope better, than before.

Senator CAPPER. And you need lower transportation?

Mr. STRASBAUGH. We do, and to get a fair price for our canned foods. When canned foods get beyond a certain price per can some people do not purchase the product as freely as if they were a cent or two lower per can. And a change in the freight rate would tend to lower the prices.

Senator LENROOT. Do you believe that transportation rates should be reduced?

Mr. STRASBAUGH. I can not for the life of me understand why transportation rates should be the exception in not being reduced; if everything else is to be reduced, why not transportation rates?

Senator LENROOT. We will all agree on that. But can you suggest how it can be brought about, and why it should be done?

Mr. STRASBAUGH. Well, sir; we have a tremendous problem on our hands, how to lower the price of our product, canned goods. I would be afraid to undertake to tell the railroads how to reduce their rates.

Representative TEN EYCK. Do you think the railroads are having as much trouble as you are?

Mr. STRASBAUGH. I think they have ten times as much.

Senator LENROOT. The point I was getting at——

Mr. STRASBAUGH (interposing). I am thankful the canners are not as bad off as the railroads are.

The CHAIRMAN. If there is nothing further you want to suggest, we are very much obliged to you.

Mr. STRASBAUGH. I thank you very much, gentlemen, and if there is anything further you wish at any time I would be very glad to give it to you.

The CHAIRMAN. What we would like to get is the price paid by the canners to the producer for the raw product, and the price received by the canner, and the intermediate costs; and if you can give us the price received by the wholesaler and the retailer, we will be very glad to have that too, covering 1913–1920, and the present situation.

Mr. STRASBAUGH. The price paid for the raw product to the grower and the price received by the canner?

The CHAIRMAN. Yes; and all the intermediate costs, labor, overhead, etc.

Mr. STRASBAUGH. In other words, you want the canners' cost of packing?

The CHAIRMAN. Yes; and the price of the wholesaler and retailer, too.

Mr. STRASBAUGH. That, I am afraid, I can not furnish you; I haven't any records about that. You want 1913?

The CHAIRMAN. Yes; and 1920, and the present situation; if you can give it for 1921, I would like to have it.

(The information requested was furnished by Mr. Strasbaugh, and is printed in full, as follows:)

In submitting these estimated costs, please note variation in selling prices, as there is always more or less fluctuation in market. Range of prices has been much more extreme during the abnormal period during and since the World War. The prewar period prices for canned foods were much more stable, fluctuation not nearly so violent and prices paid the growers and orchardmen for fruits and vegetables for canning purposes were much less variable.

The price paid to growers in 1913 for sugar corn was $9 per ton and seed furnished free by the canner. In 1920 the canner paid $20 to $25 per ton and free seed. This price range is always arrived at between canner and grower in view of prices of other farm products produced by growers, such as hay, grain, potatoes, etc.

The canning industry of the United States produces 5,000,000,000 cans of foods, value $500,000,000, annually, packed in about 4,000 factories, owned by about 3,000 individuals, located in every State and Territory of the United States, from Porto Rico to the upper point of Alaska and also in Hawaii.

Canadian canners draw much of their supplies from the United States.

The only authentic list of canners published in the United States is that published by the National Canners Association in their Canners' Directory.

These canners use 5,000,000,000 cans of all sizes from the baby condensed milk to the 5-gallon cans holding products to be recanned and bottled later in the season. The average price of cans is $30 per thousand.

Over 200,000,000 boxes or cases are used as containers for these cans when filled.

Over 5,000,000,000 labels are used by the canners of the United States.

In the corn pack alone there are over 6,000,000 pounds of sugar used annually. Canners of peas and baked beans use approximately 6,500,000 pounds of sugar; and in fruits, jellies, and jams the amount of granlated sugar used will run into immense figures. One-half million barrels of sugar will hardly supply the canners' wants. (The canner lost heavily last season on account of the decline in sugar from 22½ to 30 cents per pound to 6 to 7 cents per pound as at present.)

Salt is also used in large quantities, nearly as much as sugar.

Glass jars and bottles are used, also millions of pounds of nails.

Cannery equipment will run into hundreds of millions. Wages paid out by canners can be figured in millions.

The laboring man, or the man who labors, or rather the man who wishes to earn money by laboring can ill afford to condemn or disapprove of the canning industry. The consumer who studies economy and convenience and health products can not afford to overlook the contents of the hermetically sealed can which had been sterilized by heat.

The canner and the farmer are almost inseparable; it is difficult to say where one leaves off and the other begins. The same laws and regulations should be framed to apply to one as they govern the other. Therefore, any regulation granting privileges to the farmer and withholding like privileges to the canner is detrimental to the farmer eventually, because the canner's losses are reflected eventually to the farmer, as he sells the bulk of his product in many States to the canner. The farmer, assisted by nature, produces; the canner, once removed from nature, preserves the farm product by artificial heat so that it may remain on the pantry shelf until the requirements of the housewife may demand its use. Canned foods, hermetically sealed and scientifically prepared, will keep for generations.

It has been estimated that there is invested in canneries and canning-machinery plants over a half billion dollars. It is also estimated, and the figures are approximately correct, that the shrinkage in cannery products alone, superinduced by deflation, indicate a loss to the canner aggregating from $100,000,000 to $200,000,000 in the last 12 months. Depreciation of canneries and plants making canning-house machinery can be conservatively put at 50 per cent less than valuation of a year ago, and possibly in some cases depreciation of 75 per cent would not be an extreme estimate.

The canners were sorely tried and met with heavy financial losses on account of the inability of the wholesale grocer to function properly on account of losses in sugar on account of the collapse in sugar prices in the early stages of the deflation period, and on account of enforced deflation the canner could not market his normal pack of 1920 except at demoralized prices, 30 and 40 per cent below cost, largely on account of the grocer's credit being restricted as well as the canner's.

In 1920 the canner found his costs at peak prices on account of the situation as explained. The canners were unable to pay growers ofttimes their labor, as well as their can and supply bills, according to usual custom. The canner was almost invariably told by his banker that it was impossible to obtain sufficient money to take care of his requirements even at any rate of interest. There were many cases when canners could not obtain loans when their warehouse stocks more than justified double the amount sought. In addition to this, frequently the canneries and the machinery were unencumbered, but this did not aid the canner in securing the loan required by the necessity of the situation.

There were cases, in fact, at one time when Liberty bonds were offered in fair-sized amounts as collateral, and even with such security the canner was unable to borrow sufficient to meet his requirements.

This explains the selling of canned foods in many cases from $1 to $3 and $4 per case less than 1920 packing costs in many instances. The consumer was supposed to be benfited by these temporary declines, but in the majority of cases there was quite a stretch between the canner's price and the consumer's price on account of violent fluctuations and forced sales by canners in order to obtain sufficient money to meet incoming bills overdue.

Notwithstanding this situation, on account of increased freight rates beginning in September, 1920, tin cans were listed during the first quarter of 1921 at prices higher than in 1920, and even at prices higher than were quoted at any time during the war period. Cans were never advanced in price during the war period in keeping with the advances in the price of labor which is necessary in producing 1 ton of steel. The cost of labor required to produce 1 ton of steel in the prewar period, we are told, was about $14. This labor was advanced to as high as $40 per ton of steel before the period of reduction.

No. 2 cans sold during the prewar period for about $14.75 per thousand; they advanced to about $25 per thousand prior to September, 1920, and since that time to January 1 and during the first few months of 1921 the price for No. 2 cans ruled at about $26.75 per thousand. If cans had advanced in proportion to labor, they would have advanced to $40 per thousand, but such was not the case. Therefore, it was not to be reasonably expected that cans could decline in keeping with the decline in labor and other commodities.

Freight cars are employed from time to time in the various movements of iron ore from the mill, coal, coke, and the various shipments of the intermediary products, including tin cans to the canner's factory. High railroad wages, therefore, compelled high prices for canned products. Changed classification of canned foods has always tended to increase the prices of canned foods to the

ultimate consumer. The recent advance in canned foods toward a nearer figure to replacement values is on account of canners having satisfied claims against them of various kind but at terriffic losses, and now since such indebtedness has been liquidated there is an advance in prices, though by no means near equal to 1920 costs for most canned commodities, and in many cases not yet near the 1921 replacement estimated costs.

This condition of low market was evidently the result of deflation and not the result of oversupply had conditions throughout the United States continued normal. This has been proved by the later rally in canned-foods prices toward replacement values. These fluctuations brought about in this way will show you that it is impossible to follow the average shipments of canned foods from the canner to the consumer. These fluctuations naturally compelled losses to the distributors and the variation of percentages in selling price above and below cost while these sacrifice foods were being distributed to the consumer.

It is easy to imagine, however, that retailers are basing their present prices on to-day's higher market for fear of their inability to replace present holdings even at present below 1921 costs. I do not suggest this in any way of criticism of the distributor. He is only one of the more or less affected either advantageously or otherwise by deflation and tight money.

Deflation brought losses to those who needed to borrow, but deflation did not affect the canner or distributor who did not have to sell or borrow in order to obtain immediate funds for immediate requirements, and in addition to this, the few who had reserve funds or were favored with ample loans or credit or who stood close to able financiers were in position to profit by the situation by buying the canners' products far below cost, with every reasonable assurance that everything must sooner or later return to normal basis and believing that no product could long continue to sell below cost of production. It might also have been conjectured that the canner's financial position would not permit him to pack more than half the normal supply in the season of 1921, and this would be productive of high speculative prices on account of scarcity superinduced by the prospective short pack of 1921.

The only recommendation that I would make is that the canner be governed by the same laws as obtained by the farmer, for the canner and farmer are closely allied; the same consideration should be given the canner as the farmer in regard to loans of credit; that is, ample loans based on the canner's total assets, so that he may be able to produce at a reasonable profit and may be unhampered by tight money, which means forced sales frequently far below cost.

I would also recommend encouragement of unhampered competition among distributors so that violent fluctuations will be superseded by the law of supply and demand. If this is done, in a few years the canning industry will again regain the foothold and will again occupy a prominent position in a large share of the production of foods for the consumers' use.

Cost of packing corn, Townsend, 1918.

Cans and cases	$0.45	Taxes	$0.005
Raw corn	.27	General expense	.01
Labor	.14	Brokerage	.03
Miscellaneous supplies—labels, sugar, seed, fuel, etc	.0425	Office expense and salaries	.05
Maintenance and repairs, and depreciation on plant	.02	Freight and express	.0225
Interest	.03	Sanitary machine lease	.005
Leaks and swells	.01	Per case	1.0975
Insurance	.0125	Per dozen	.54875

Cost of packing, 1918, Townsend, $0.54875 per dozen.
Selling price in 1918 ranged from 55 to 72½ cents per dozen.
Paid growers for raw corn, season of 1918, $9 per ton, delivered factory.
Seed corn was furnished growers by canners free of expense to grower, in addition to above prices paid for raw corn.

Cost of packing corn, 1920.

	Price per dozen.			Price per dozen.	
	Mount Pleasant.[1]	Townsend.[2]		Mount Pleasant.[1]	Townsend.[2]
Cans	$0.3176	$0.3200	Taxes	$0.0033	$0.0017
Cases	.0971	.1001	N. C. A. inspection	.0100	.0100
Raw stock	.2751	.2676	N. C. A. advertising	.0100	.0150
Seed	.0233	.0074	Aberdeen office expense	.0500	.0500
Labor	.1657	.1557	Leaks and swells	.0020	.0010
General expenses	.0325	.0292	Interest	.0835	.0457
Miscellaneous supplies	.0078	.0027			
Maintenance and repairs	.0232	.0149		1.2720	1.1944
Coal	.0078	.0116	Brokerage (estimated)	.0300	.0300
Sugar and salt	.0787	.0606	Discount (estimated)	.0150	.0150
Labels	.0477	.0466	Labor shipping (estimated)	.0075	.0075
Machine rentals	.0051	.0045			
Insurance	.0266	.0311		1.3245	1.2369

[1] Mount Pleasant, Del., factory: Cost of packing, 1920, $1.3245 per dozen; paid growers for raw corn, season of 1920, $20 per ton, delivered at factory; sold 40 per cent of 1920 corn at 90 cents to $1 per dozen.

[2] Townsend, Del., factory: Cost of packing, 1920, $1.2369 per dozen; paid growers for raw corn, season of 1920, $20 per ton, delivered at factory; sold 50 per cent of 1920 corn at 90 cents to $1 per dozen.

Seed corn was furnished growers by canner free of expense to grower in addition to above prices paid for raw corn.

Estimated cost of packing corn for season 1921.

Cans	$0.3276	Taxes	$0.0033
Cases	.0671	N. C. A. inspection and advertising	.0050
Raw stock	.2751	Aberdeen office expense	.0500
Seed	.0233	Leaks and swells	.0020
Labor	.1257	Interest	.0835
General expenses	.0325		
Miscellaneous supplies	.0078	Total (per dozen)	1.1820
Maintenance and repairs	.0232	Brokerage (estimated)	.0300
Coal	.0078	Discount (estimated)	.0150
Sugar and salt	.0287	Labor shipping (estimated)	.0075
Labels	.0377		
Machine rentals	.0051		1.1845
Insurance	.0266		

Cost of packing, estimated, 1921, $1.1845 per dozen.
Growers being paid for 1921 raw corn, $20 per ton, delivered at factory.
Seed corn furnished growers by canner free of expense to grower in addition to above prices paid for raw corn.
Forward selling price, 85 cents to $1 per dozen for standard corn.
Forward selling price, 85 cents to $1 to $1.10 per dozen for extra standard.
Forward selling price 85 cents to $1.10 to $1.25 per dozen for fancy.
Prices are dependent upon canner and reputation of brand.

Senator LENROOT. I would like to ask you one question. Can you tell us what proportion of the product is secured through contracts with the growers before planting?

Mr. STRASBAUGH. In the prewar period I would say certainly three-fourths; in the present period, this year, I would say less than one-fourth.

Senator LENROOT. That is because of the canner being unwilling to make the contract?

Mr. STRASBAUGH. I would not say unwilling.

Senator LENROOT. Not able to.

Mr. STRASBAUGH. I would say his inability.

Senator LENROOT. Not on account of the grower's unwillingness to make it if he could?

Mr. STRASBAUGH. The canner could not see how he could contract at a price that would pay the grower even cost for his raw products this year and produce enough to get out whole on it, and for that reason the canner withheld.

Representative TEN EYCK. That was in January and February?

Mr. STRASBAUGH. Yes, sir; and March.

STATEMENT OF MR. C. J. FAWCETT, OF CHICAGO, ILL., PERTAINING TO THE SHEEP AND WOOL INDUSTRY OF THE UNITED STATES.

Mr. FAWCETT. Mr. Chairman, and gentlemen, I am appearing as director of wool marketing of the American Farm Bureau Federation, and assistant general manager of the National Wool Ware House & Storage Co., a growers' wool marketing agency, and a farmer and woolgrower in a small way in Iowa.

It must be evident that the live-stock industry in the United States is in a critical condition, or this commission would not have been created. And I am very sure that if any doubt was in the mind of any member of this commission as to the critical condition through which the live-stock industry is passing at the present time, sufficient evidence has been presented to dispel any such ideas.

It is needless to say that the eyes of the agricultural industry are on the results of this commission, and, Mr. Chairman, I am going to present some statistics and some figures that I wish to read into the record. Will that be satisfactory?

The CHAIRMAN. Yes, sir.

Mr. FAWCETT. It would be appreciated if the commission would feel free to interrupt me at any time and ask questions upon any subject presented, as it is a failing of mine (or an inability) to make matters clear; and in presenting the few ideas that will be included here, our purpose and object is to present accurate figures and statistics that will be of value and a guide to the commission in its deliberations.

The CHAIRMAN. Are you going to deal with the wool-pooling corporations?

Mr. FAWCETT. That is one of the points I was going to touch upon, yes, sir; not as to wool, but the sheep industry as a whole, and what we have to say will not be lengthy.

While the same conditions exist to a degree in all branches of the live-stock industry, and a description of one covers largely conditions of all other lines, there is a different angle to each and to secure a fair idea of the present condition of the sheep and wool industry and wherein it differs from other lines of live stock, a brief review of conditions dating back to the war is necessary.

Wool occupies a unique position as compared with other agricultural products in that our annual production is around 300,000,000 pounds, or approximately 50 per cent of our consumption. And wool is practically the only agricultural commodity that is not exportable. We produce near one-tenth the world's supply and consume one-fifth, therefore, we are dependent each year upon foreign production for the equivalent of our production. Unfortunately for the woolgrowers our industry occupies a unique position in another respect in that our product, wool, being one of the most needed commodities in the proper equipment of an army, was commandeered by our Government in the spring of 1918, not at the then prevailing market value, but the value as of July 1, 1917, and the woolgrower was denied the increase in value of his commodity caused by the war-time conditions that was enjoyed by practically every other industry.

Senator LENROOT. What was that price?

Mr. FAWCETT. The price at which the Government took it over? Approximately 33⅓ per cent over the prewar prices.

Senator LENROOT. Would you give the prices?

Mr. FAWCETT. On quarter-blood combings a range of 60 or 65 cents, according to the shrinkage thereof, and on three-eighths combing 65 to 70 cents.

There are approximately 21 grades of wool.

Senator LENROOT. Was or not that a pretty fair price?

Mr. FAWCETT. Yes, sir. Approximately 33⅓ per cent over prewar prices.

Senator LENROOT. You are criticizing the Government for the price it paid?

Mr. FAWCETT. Absolutely not.

Senator LENROOT. Perhaps I misunderstood your statements.

Mr. FAWCETT. I am simply stating the position the wool industry occupies, compared with other agricultural commodities. The comparison is carried forth.

The CHAIRMAN. How long was this price control maintained?

Mr. FAWCETT. How long was the price control maintained?

The CHAIRMAN. Yes.

Mr. FAWCETT. Until the fall that the armistice was signed—about November 11. The War Industries Board went out of existence on January 1 following the armistice.

Representative SUMNERS. When the control board went out of operation were you left with a considerable stock of wool on hand?

Mr. FAWCETT. Yes, sir. The Government had on hand at the date of signing the armistice approximately 450,000,000 pounds of imported wools.

Representative SUMNERS. No; that was not my question. You said the Government commandeered this wool. Do you mean that it took the wool that you produced up to the time that the control board went out of operation in January?

Mr. FAWCETT. It took the one crop, the spring clip of 1918. That was all; just the 1918 clip.

Representative TEN EYCK. You spoke of having on hand wool that the Government imported. Did the Government import wool to this country for its use?

Mr. FAWCETT. Tremendous quantities.

Representative TEN EYCK. Did it import more than it needed?

Mr. FAWCETT. Yes, sir.

Representative TEN EYCK. Did it import more than its usual importation of wool?

Mr. FAWCETT. A great deal.

Representative TEN EYCK. And it left that stock of wool in the country after the war was over?

Mr. FAWCETT. Yes, sir; approximately 450,000,000 pounds.

The CHAIRMAN. What did you say—33⅓ per cent over the prewar price?

Mr. FAWCETT. Previous to our entering the war.

The CHAIRMAN. It had raised in prewar price to that?

Mr. FAWCETT. Yes, sir. The 1917 price was approximately 18 per cent less than the price at which the Government took over the domestic clip in April, 1918, and previous to that the same grades of wool that I have been quoting were selling around 44 cents up to 50.

Senator LENROOT. You say at the prewar price an increase of 33⅓ per cent. Now you say previous to commandeering.

Mr. FAWCETT. Previous to our entering the war.

Senator LENROOT. Not previous to our commandeering; that is it was previous but not immediately previous?

Mr. FAWCETT. When I say——

Senator LENROOT. When did they commandeer it?

Mr. FAWCETT. In April.

Senator LENROOT. Of what year?

Mr. FAWCETT. Of 1918, and set the values at the July 1, 1917 price.

The CHAIRMAN. The values on July 1, 1917, were evidently very much higher than they were July 1, 1913, 1914, and 1915?

Mr. FAWCETT. Yes, sir.

The CHAIRMAN. I should say approximately 100 to 125 per cent.

Mr. FAWCETT. No, sir.

The CHAIRMAN. On the basis of the 1913 products the latter half of 1917 there was an increase in the price to—I can not give you the absolute prices—of 175 per cent, based on 1913?

Mr. FAWCETT. May I ask your authority?

The CHAIRMAN. I presume these are the figures taken from the Bureau of Labor Statistics index.

Mr. FAWCETT. My opinion, representing the woolgrowers selling agency who last year handled approximately one-tenth of the total domestic production, is based on sales rather than statistics, sales of similar grades of wool we have handled in years past; but in making the comparison of value at 33⅓ per cent the basis of estimate was previous to our entering the war, or previous to July 1, 1917.

Senator LENROOT. That was not a normal situation. You must admit the prices previous to our entering the war were comparatively higher than normal?

Mr. FAWCETT. Yes, sir; relatively high.

Representative SUMNERS. Can you put in any figures for 1913? They will speak for themselves.

Mr. FAWCETT. I have a table here but it does not go back that far. However, the present market value is about 75 per cent of the prewar average; and when I say prewar in this case, I mean before the World War. Quoting from sales made by National Wool Warehouse & Storage Co., quarter-blood of the 1913 clip was selling January, 1914, at 25½ cents per pound. The same grade to-day has a value of about 18 cents and is now selling at that.

Senator LENROOT. It is not quite fair to use the prewar basis in one case, and prewar in another case meaning another thing, is it?

Mr. FAWCETT. I grant you that statement, and we do not have any desire in the presentation of this brief to have a double meaning or misstate the facts, which I think will be demonstrated before we finish this statement.

The CHAIRMAN. You mean then the wool price to-day is below the wool price in 1913?

Mr. FAWCETT. You are singling out a year which is below.

The CHAIRMAN. I say 1913, 1914 or 1915?

Mr. FAWCETT. Yes.

The CHAIRMAN. I would be very glad if you would produce any figures which will show that. You need not do it now. Admitting

what you say is true as to purchasing value, in absolute figures those we have do not sustain it.

Mr. FAWCETT. Permit me to refer you to the report of the Taft Tariff Commission in 1910, which gives the 9 pounds of medium wool which was used in the manufacture of a choice worsted suit, which was given as 25 cents per pound. I have just received sales for something over a million and a quarter pounds of wool of similar grade last week, and these grades were from 18 cents to 23½ cents. Twenty-three and one-half cents I think was the highest.

The CHAIRMAN. Has there been any drop in wool prices recently?

Mr. FAWCETT. Yes, sir.

The CHAIRMAN. The figures I based my statement on do not come down later than May of 1921.

Mr. FAWCETT. I feel very confident that these figures will bear investigation, because possibly no better criterion to the present market could be given than this recent sale of a million and a quarter pounds of wool last week which embraced the majority of the main grades as we grow them in the mid-west and Western States.

Senator LENROOT. Was that sale lower than the prevailing market?

Mr. FAWCETT. No, sir.

Senator LENROOT. It was made at the market price?

Mr. FAWCETT. At the present market value. For instance, in this sale were three sales of Iowa of three-eighths staple, 1920 clip, which is a very good grade of combing wool. You understand, I presume, the distinction between combing and clothing is in the length of the staple, and the combing is of sufficient length to comb and spin for the purpose of manufacturing worsteds. This sale of Iowa three-eighths combing ranged from 22.3 cents to 23 cents.

Representative TEN EYCK. Before we get too far away from the other questions that I asked you, I would like to have you tell us how the Government proceeded to get rid of this importation of wool that they brought into the country? Can you tell us how that came in competition with the American-grown wool?

Mr. FAWCETT. Yes, sir. The amount so held was approximately 425,000,000 to 450,000,000 pounds. This was mostly of the lower grade wools, such as South American No. 3's, 44's to 46's in spinning terms. There was no provision, as I understand, at that time for disposing of Government-owned commodities other than immediate disposition—dumping on the market. The outcome of that was obvious. It would practically ruin the market. In Chicago a meeting was held at which the speaker was present. Thirteen States were represented. We petitioned the Government to place this wool on the market in the installment plan—so much per month—in order that the market might be fed and not crowded—nor forced. This was granted, and it has been disposed of in that manner since. I think at the present time it is reduced to approximately 40,000,000 pounds.

Senator LENROOT. What was the amount held at the time of the armistice?

Mr. FAWCETT. About 450,000,000 pounds.

Senator LENROOT. And we consume about how much?

Mr. FAWCETT. We consume about 550,000,000 pounds. I think last year about 550,000,000 pounds—something like that.

Senator LENROOT. A little over a year's supply, over our own d mestic production?

Mr. FAWCETT. You mean the Government's holdings?

Senator LENROOT. Yes.

Mr. FAWCETT. No. The Government's holdings were 450,000,0 pounds, and we annually consume something like 550,000,000 pound

Senator LENROOT. We annually produce more than the Gover ment had on hand?

Mr. FAWCETT. No, sir. Our production is around 300,000,0 pounds annually.

Senator LENROOT. Is there any fault to be found with the Gover ment's marketing of its wool?

Mr. FAWCETT. It seems to me that the Government has been e tirely reasonable and complied with the request of the woolgrowe and the industry, as far as it is possible; and I might state furth that at the urgent request of some of the woolgrowers' associatio the monthly sales have been postponed from time to time by reas of our requests, and for other reasons.

It should be borne in mind that the majority of this wool was the lower grades, class 44's, 46's—very little above 56's, possibly.

Representative SUMNERS. What use did that Government wool g into, and was any of it exported?

Mr. FAWCETT. Was any of the wool the Government owned e ported?

Representative SUMNERS. Yes.

Mr. FAWCETT. I think not a pound.

Representative SUMNERS. What uses did it go into?

Mr. FAWCETT. If it was true to grade it would be for the purpo of carpet manufacturing—lower grades, and the lower grades c cloth in which 46's spinning quality could be used.

Representative SUMNERS. To what extent did that wool come i competition with the bulk of the wool produced by America growers?

Mr. FAWCETT. It would come in competition with quarter bloo and below.

Representative SUMNERS. What percentage of the total America production was a quarter and below?

Mr. FAWCETT. Understand, in answering that, the answer to thi question will be based on the percentage of quarter and below tha our firm handles, and we probably are as representative a firm a there is. I would say that 33⅓ per cent of the 25,000,000 pounds tha we have handled from possibly 10 States was quarter and below.

Representative SUMNERS. Does that particular wool going on th the market in the way in which you have indicated cause a greate spread in the price of the different grades of American wool tha would ordinarily be found in the American market?

Mr. FAWCETT. It would seem so, for this reason, that the pric paid on these Government auctions for a certain grade of woo would govern the price paid for a similar grade of wool sold else where.

Representative SUMNERS. Did it do it, in fact?

Mr. FAWCETT. It had every evidence of that effect.

Representative SUMNERS. Does the lower grade of wool of American production that you speak of come from a particular section, or does it come from different clips?

Mr. FAWCETT. It is caused by crossing black-faced rams of a Down breed, which you are aware are the mutton breeds, and approximately 65 per cent of our domestic production to-day is of the medium wools; or, in other words, indicating a cross with the Down breeds. And, therefore, the per cent of fine wools seems to be rapidly decreasing as far as domestic production is concerned. This will apply, in a large measure, to New Zealand also, as will be indicated by the hundred million pounds of New Zealand lambs imported into the United States in 1920. The New Zealand people have found that the American market makes a very convenient output for their frozen lamb and mutton, and therefore they are using the Down rams, mostly of the Hampshire breed, for the purpose of producing mutton.

Representative SUMNERS. Right at that point, not leading too far afield; do you happen to know what per cent of American mutton consumption is produced in this country?

Mr. FAWCETT. Last year about one-tenth of our consumption was produced in foreign countries.

Representative SUMNERS. Was that a normal percentage?

Mr. FAWCETT. Abnormally large. Never before has there been a like amount of foreign mutton.

Representative SUMNERS. Have we had any exportations of mutton on the other hand?

Mr. FAWCETT. No, sir.

Senator LENROOT. If that be true that we had an abnormal importation, does that mean that there was not as great slaughter in our own country?

Mr. FAWCETT. I think at nine of the principal markets the number of sheep slaughtered in 1920 was 35 per cent more than that of 1916, or possibly above normal.

Senator LENROOT. How do you account for that? Was there also an abnormal consumption of mutton?

Mr. FAWCETT. Yes.

Senator LENROOT. If we slaughtered 35 per cent more and imported more, how does that come about?

Mr. FAWCETT. The price that the grower received last year—in 1920—would not indicate there was any increase in demand other than a decrease in price would warrant or justify.

Senator LENROOT. I do not think that you follow me. If we slaughtered 35 per cent more than normal and also imported more than normal, do you mean to say that our consumption was at least 40 per cent more than normal?

Mr. FAWCETT. Our consumption evidently was more than normal, because of the decreased price. Whenever we make a decrease in price it is generally followed by an increase in consumption, is it not?

Representative SUMNERS. Did beef and swine decrease in price as relatively as mutton decreased?

Mr. FAWCETT. The decrease was greater, I would say, because of this fact: That the mutton products did not enter into the impor-

tations during the war. Mutton as a meat is not exportable. There fore the price of mutton was not as high relatively during the perio of the war. Therefore the decrease was possibly not as great.

Representative TEN EYCK. Is mutton used as a substitute for othe meats?

Mr. FAWCETT. Yes, sir; as far as domestic consumption is con cerned, but not for export.

Representative TEN EYCK. Yes; that is what we are talking abou because we slaughtered more and imported more, and undoubtedl that was the cause.

Mr. FAWCETT. Absolutely.

Senator LENROOT. I understood there was a light production i beef. Do you think that our meat consumption was less last year?

Mr. FAWCETT. I am not posted on beef. However, I understan that there was less beef killed, less number of pounds of beef kille last year.

The CHAIRMAN. I happen to have here the figures of consumptio of mutton and lamb for the United States by years. 1920 compara tively was higher than any prior year until you get back to 1914. I is higher than it was in 1919; higher than it was in 1918—very muc higher than it was in 1918, and still higher than it was in 1917. S that you are apparently correct there.

Senator LENROOT. That is mutton and beef combined.

The CHAIRMAN. Mutton and lamb.

Representative SUMNERS. Proceed, Mr. Fawcett.

Mr. FAWCETT. Take the cotton market for an illustration, whic was governed by supply and demand, and that advanced near 30 per cent while the price of wool was set at approximately 40 per cen over prewar values. Mutton and lamb by its very nature was no meat that could be used for export purposes to feed the armies therefore, it shared to a less degree in the increase in values enjoye by other meat products. Therefore, the sheepman having bee denied war-time profits to a large degree, upon both wool and mutto is therefore less able to withstand the terrible calamity that ha fallen on all branches of the live-stock industry. While there is degree of satisfaction in being immune from accusations of profiteer ing during the war, such realization does not relieve the financia situation we are facing to-day.

There are other things that should be mentioned that contribute in a substantial way to the present condition of the wool and shee industry. A severe drought existed in practically all range States i season of 1919, which was followed by one of the worst winters i history. Feeding began in October and lasted until late in th spring of 1920. Feed bills were in many instances five times as grea as normal. This was followed by a 50 per cent lamb crop by reaso of severe weather and poor condition of breeding stock.

The result was that flocks were mortgaged from $6 to $12, th average being about $8.50 in the spring of 1920. Yet they were no discouraged for they had every reason to expect a fair market pric for their 1920 clip of wool. But something happened to the wool market in June, 1920, before the 1920 clip was moved. On about June 20, 1920, or immediately after the Federal Reserve Board issued that history-making pamphlet calling loans and ordering deflation,

the wool market ceased to function and scarcely a pound of domestic wool changed hands from that date until about January 1, 1921. Many causes, none of which relieved the situation of the woolgrower, may be named for the paralysis of the wool market, such as our Government entering the domestic market in competition with growers, with approximately 450,000,000 pounds of low grade imported wools on hand at close of war, which had a very detrimental effect on wool values; the importation duty free of 427,000,000 pounds of foreign wool and 100,000,000 pounds of frozen lamb and mutton in 1920; the low rate of exchange provided the foreign producer a bonus of from 20 to 35 per cent above the market price received by the domestic grower; so-called suspension of buying by the public from manufacturers of wool which resulted in large cancellation of cloth orders then held by woolen mills.

The last named reason though greatly emphasized is not born out by the statement of the Bureau of Markets, as this department makes the statement that the consumption of wool in 1920 was normal, or 580,000,000 pounds.

If such be the case, we are forced to the conclusion that the woolen mills found practically their entire needs in stocks already on hand, and in imported wools to the total neglect of domestic clip of 1920; for a large per cent, perhaps 50 per cent of the 1920 clip, which was produced at a cost of 45 cents per pound exclusive of marketing and carrying charges which amount to about 7 cents per pound, is yet in first hands. The condition was so serious that on December 10, 1920, representatives of woolgrowers appeared before the Ways and Means Committee of the House of Representatives, in an effort to secure protection from the importation, duty free, of foreign wools, in the form of a temporary embargo or an emergency tariff. It took the form of the emergency tariff, which had a very stormy career, and did not become a law until May 27, 1921. The bill was delayed intentionally or unavoidably until 225,000,000 pounds more of foreign wool was imported from January 1 to May 1, in addition to the 427,000,000 pounds imported in 1920.

Representative TEN EYCK. What year is it that you refer to?

Mr. FAWCETT. The present year, 1921. The bill was delayed from December 10, 1920, until May 27, 1921. In that time, or a period from January 1, 1921, until May 27, 1921, there was 225,000,000 pounds of foreign wool added to the 427,000,000 pounds imported in 1920.

Representative SUMNERS. Have you the quantities of importation, month by month, there?

Mr. FAWCETT. I have not got it in this brief, but we have it from the Bureau of Markets. It averaged 1,000,000 pounds each day for a greater part of the time from January 1 to May 27, 1921. These figures were taken from the Bureau of Markets, due to difficulty of obtaining figures on importations, and they are the most accurate we can get.

Senator LENROOT. Have there been any importations since the emergency tariff?

Mr. FAWCETT. From May 9 till July 2 there were, I think, 9,000,000 pounds. I have that and it will appear later. This was mostly all No. 3 wools. I am not saying all.

The CHAIRMAN. Carpet wool?

Mr. FAWCETT. Yes, sir. The term "carpet wool," Mr. Chairman, is deceptive.

The CHAIRMAN. I understand that; but that is the term ordinarily used.

Mr. FAWCETT. Yes, sir; because much wool that is imported as carpet wool steps up a grade or two and becomes clothing wool when it gets to the manufacturer.

All of this 650,000,000 pounds of wool came in absolutely free of duty, while the manufacturers of our product were protected by a 35 per cent ad valorem duty upon the importation of foreign manufactured articles. This we claim is unjust discrimination against the producer that can not be justified. Why should we, as producers, be compelled by law to market our product in an open market and buy the articles manufactured therefrom on a protected market? Yet that is what we have had to do since March 1, 1913, and will virtually have to do the same thing if the Fordney tariff bill in its present form becomes a law. Just such unjust discrimination as this is exactly what is creating so much unrest and dissatisfaction with governmental affairs.

Representative SUMNERS. What is your objection to this Fordney tariff bill? Does it not give enough protection?

Mr. FAWCETT. Will you allow me to delay answering that until we get later on in the discussion?

Representative SUMNERS. Yes, sir.

Mr. FAWCETT. Briefly summing up the situation, our industry in the range States is bankrupt is forced to liquidate at this time, for it is estimated that 80 per cent of the range sheepmen have far greater liabilities than assets, based on present-day market values.

To add to the burden we have, including the 1921 clip, about 1,010,000,000 pounds of wool now on hand in the United States, or about 18 months' supply.

The Tariff Commission in its recent report, which is now available, gave the cost of running ewes on the range in the year 1919 as $8.54, and on that basis the cost of range wools was given as 45 cents per pound, exclusive of freight and marketing charges. The same report places the cost of running ewes on the range in 1920 at $8.40, a reduction of only 14 cents per head; therefore the cost of producing the present clip of wool would be little less than in 1919, as most of the expense of producing the 1921 clip was incurred in season of 1920.

Below is listed values of similar grades of wool as of June 1, 1920, and June 1, 1921:

	June 1, 1920.	June 1, 1921.
	Cents.	*Cents.*
Choice Ohio delaine	85-90	35-37
Iowa:		
½ blood staple	74-78	28-30
⅜ blood staple	65-68	23-24
¼ blood staple	58-60	22-23
Low ¼ blood staple	46-48	16-18
Braid	35-36	10-12

These quotations are taken from sales of Ohio and Iowa wools of same grade and shrinkage upon given dates made by the Ohio Fleece Wool Growers' Association and the National Wool Warehouse & Storage Co.

These prices, I might say, are based on Boston market prices, or the prices at which the grades are selling to the mill, and from those prices of 10 to 12 cents, or 16 to 18 cents, should be deducted the cost of marketing, which is about 6 cents at the present time, in order to arrive at the amount that the grower is receiving.

The CHAIRMAN. Is that greater than it was three to five years ago?

Mr. FAWCETT. Yes, sir. I will come to that presently. The financial conditions existing in the West are causing liquidation of the ewe stock. The ewe lambs instead of being retained in the breeding flock to replace the old ewes are being slaughtered to meet pressing financial obligations. In this way the working capital of the producer is being destroyed, for the range is of no use without ewes to stock it. A manufacturing establishment may, if by reason of no orders for its manufactured articles, close down entirely and then open at a future time with its capital stock intact, suffering only a temporary loss, but the live-stock man can not shut down his plant. The stock must be fed and cared for, and the expense goes on just the same. He can not stop producing. The extent of this liquidation of ewe lambs may be found by considering the receipts of sheep and lambs at the principal markets the first six months of the present season, which number 1,397,844 greater than in the same period of 1920. The situation is even more grave than first consideration of these figures would indicate—to which I believe you will agree—for the liquidation in 1920 was 35 per cent greater than normal, and statistics through a period of years show a decrease in number averaging about one-half million head annually.

Representative SUMNERS. And these lambs are a small per cent of the ordinary lamb crop?

Mr. FAWCETT. Yes, sir.

Representative SUMNERS. How does it compare at the present time?

Mr. FAWCETT. I have recently been in North Dakota, South Dakota, Idaho, Wyoming, and Montana, besides the fleece-growing States, which are east of that section. We found very, very few bands of yearling ewes. I could not give you the exact statistics, but in a recent meeting of woolgrowers in Idaho there was but one band of ewes represented in that body of growers under 5 years old. At 5 years of age on the range a ewe is getting pretty far along. Of course they can go in the corn belt and they are good for a year or more by reason of better feeding, but about one or more years and their usefulness will be passed.

Representative LENROOT. Does or not the destruction of the range, under our present homestead stock range law, have something to do with that?

Mr. FAWCETT. In 1917; yes. Since 1917; no. The range has had a tendency to increase rather than decrease since 1917. In the 17 years preceding the war the number of sheep on range decreased by 12,000,000.

There is another phase of this subject that should not be over-looked. It seems to be a well-laid plan of nature for the range because of its adaptability for production of growing stock, to fur-nish feeding lambs and steers to consume a large portion of corn and other grains raised in the corn belt. Iowa depends on the range for approximately 60 to 65 per cent of her feeding lambs and about 40 per cent of the feeding steers. It is a well established fact that in order to maintain the fertility of our corn-belt farms stock raising and feeding is an absolute requirement. Thus the far reaching effects of this liquidation will be seen.

The sheep and wool industry of our country is swiftly following a course which, if followed to its natural conclusion, will mean that our people will be compelled to rely on foreign production in excess of 400,000,000 pounds of wool, and our entire supply of mutton annu-ally, and the bill to foreign producers will be around $250,000,000 each year.

But we have no notion of sacrificing our industry, and we expec from this commission recommendations that will greatly assist in arresting the downward course now being pursued.

Senator CAPPER. Do you not think the same condition exists with reference to the cattle situation?

Mr. FAWCETT. Yes; I think it does, but I am not so familiar with the cattle situation.

Now, we come to remedial suggestions. In making these remedia suggestions, and suggestions they are, I am reminded of the old adag that "It is easier to tell 20 what were good to be done than to be on of the 20 to follow mine own teachings." And these suggestions ar made after being in contact with the growers in the West and th whole United States and are made with a view of furnishing yo with information that may be of value to you as a safe guide in you deliberations.

We propose to begin right at home and reduce the cost of produc-tion so far as is within our power. This was not possible to any extent in the season of 1920, for cost of labor and provisions were not reduced. This is possible now to some extent. Herders are now get-ting around $60 per month and board, whereas one year ago they were commanding close to $100 and board. The range conditions are excellent, indicating a light feed bill this winter.

There are two conditions upon which the future of the industry largely depends, over which we have absolutely no control, and they are "money rates" and transportation rates. The present freight rates on wool from Boise, Idaho, to Boston, and on sheep from that point to Chicago market are as follows:

Wool in bags, minimum weight 24,000 pounds, from Boise to Boston.

	1917	1920
Freight rate per hundredweight	$1.98	$3.46
Cost of transporting 1 car	475.20	831.60

Senator CAPPER. Is the rate still the same?

Mr. FAWCETT. Yes, sir; generally speaking. There is a case being tried in Salt Lake City now. They applied in June and the case is being tried at the present time.

	1917	1920
Price per pound	\$0.60	\$0.23½
Pounds required to pay for car	792	3,540
Per cent of value for cost of transporting	3.3	14.75
Per cent increase of value carriers get over 1917	....	447

The price in 1917 was 60 cents and in 1920 was 23½ cents; and from that will have to be deducted the transportation of $831.60. It would be about 35 per cent of the 1917 price—a little less than that.

Sheep, minimum weight 23,000 pounds, from Boise to Chicago.

	1917	1920
Freight rate per hundredweight	\$0.96	\$1.37½
Cost of transportation of 1 car	\$220.80	\$316.25
Price per hundredweight	\$11.25	\$6.87½
Pounds required to pay for 1 car	1,961	4,600
Per cent of value of cost of transporting	8.52	.20

Percentage increase of value carriers get over 1917, 235.

Representative SUMNERS. Have they made an application for reduction of rate because wool is about to be shipped through the Panama Canal?

Mr. FAWCETT. Yes, sir. Three of the transcontinental railways have made application to the Interstate Commerce Commision for privilege to reduce rate on wool in the grease in bales or in sacks from Portland, Oreg., to Boston, which is now $1.66½ by water, to the relatively low rate of $1.35 by rail, while the rates of intermediate points from Idaho and Nevada are as high as $3.05 to $3.75.

It would seem if increased business is so valuable to the railroads as to justify a reduction in transcontinental rates on wool shipments from $1.65 to $1.35 per hundredweight while intermediate point rates are as high as $3.75, that in order to compete with water transportation a reduction in freight all down the line will be in order and will increase volume of business proportionately. Wool from Boise, Idaho, may be shipped to Portland, Oreg., a distance of 400 miles, rebilled from that point to Boston by rail at less cost than from Boise direct to Boston. Is this reasonable? Is it just?

It is very clear that while such fixed items of expense enter into cost of marketing agricultural products, a prewar condition can not be realized.

Senator LENROOT. Suppose that they do not get that business, and it is transported by water, can they carry goods from the interior as cheaply as if they do get the business?

Mr. FAWCETT. If they can make a profit on that——

Senator LENROOT. Well, they can not.

Mr. FAWCETT. Well, what is the object of competing?

Senator LENROOT. Here is a business that has an overhead expense—I am not speaking of this particular situation—and it can do a third more business at practically no additional overhead expense.

Mr. FAWCETT. Then they are not operating at a loss when they are operating that way. My contention is that if they will reduce their rates they will get so much more business that the return will be greater.

Senator LENROOT. That is always greater where it is not at the peak. But in a time like this, is that true?

Mr. FAWCETT. It seems to me there is another viewpoint to that In order to transport this wool from Portland to Boston we have to concentrate 300 ton cargoes; otherwise it goes to New York and is rebilled to Boston. It seems to me that they are taking advantage of us in this way: Wool from Boise, Idaho, may be shipped to Portland, Oreg., a distance of 400 miles, rebilled from that point to Boston by rail at less cost than from Boise direct to Boston.

Senator LENROOT. Right there, on this excessive cost of transportation, which is our greatest problem, the owners of the railroad feel that they are in as great distress as you are, do they not?

Mr. FAWCETT. I do not believe that our industry is overcapitalized.

Senator LENROOT. But they are not getting a return on that, are they—on their value?

Mr. FAWCETT. Yes, but it is not admitted that the valuation is accurate.

Senator LENROOT. No, but cut the valuation in two.

Mr. FAWCETT. I believe you will find the Oregon Short Line which transports this wool has shown tremendous profits.

Senator LENROOT. Some of them did.

Mr. FAWCETT. As well as the Union Pacific.

Senator LENROOT. I am speaking of the railroad situation generally.

Mr. FAWCETT. Yes; but is it fair to make the Oregon Short Line charge excessive rates for our wool in order to make up the earnings of the New Haven?

Senator LENROOT. Absolutely not. But I understood you were speaking generally of transportation rates.

Mr. FAWCETT. In that respect I am.

Senator LENROOT. Well, then, I will get back to the other question that the railroad is entitled to such rates as will pay operating expenses at least.

Mr. FAWCETT. Yes. We believe in a "live and let live" policy.

Senator LENROOT. And until recently they have been operating at a deficit, have they not?

Mr. FAWCETT. Why?

Senator LENROOT. I do not know, but I am asking about the fact.

Mr. FAWCETT. Yes.

Senator LENROOT. Now, I am going to ask you why?

Mr. FAWCETT. It might not be well to express an opinion, but it does seem to me it is because of an overcapitalization.

Senator LENROOT. That has nothing to do with it when they are operating at a deficit.

Mr. FAWCETT. It has to do with the capitalization.

Senator LENROOT. When they are not earning enough to pay any dividends? They are operating at a deficit?

Mr. FAWCETT. So are we. There was a time we were all operating at a profit. Let us return to it.

Senator CAPPER. I read a statement in the Post this morning that the June reports show that the earnings were 3 per cent on the commission's valuation.

Senator LENROOT. Yes, sir. That is 3 per cent on $19,000,000,000. That would be about 6 per cent on half of that. We are all for a very drastic reduction in the rates. Is it fair for us to ask the railroads to conduct their business at a loss?

Mr. FAWCETT. No, sir. But they were able to take care of that previous to the war on normal conditions, were they not?

Senator LENROOT. Certainly.

Mr. FAWCETT. Well, would they not be able to take care of it again if we could restore normal conditions? That is the theory I am getting at.

Senator LENROOT. Do you advocate cutting of railroad wages to prewar conditions, because that is the largest item of operating expense?

Mr. FAWCETT. It seems to me if we are to revert to prewar conditions it is nothing more than proper and right that labor should revert to prewar conditions.

Senator LENROOT. In other words, make the cut all along the line?

Mr. FAWCETT. Yes, sir.

Senator LENROOT. But you must admit that we can not consider reduction of rates without considering how expenses are going to be reduced.

Mr. FAWCETT. I believe labor has taken one cut.

Senator LENROOT. Yes; but it is still 100 per cent over prewar prices.

Mr. FAWCETT. Yes. However, our sheep herders are down to prewar prices. Let them do the same and we'll all be on an equal basis.

In the purchase of practically every article of food or wearing apparel the toll of excessive transportation is reflected in the cost thereof.

Live-stock commission charges for selling on the market is another item of expense that has been increased about 50 per cent and still continues to exact far too great a portion of the consumer's dollar. These with terminal, yardage, inspection, and numerous other costs are fixed, and the producer has absolutely no voice in the matter or power to reduce such costs.

The reduction in interest rates and adequate financing is required if this industry is to again be solvent. The Federal reserve system has failed in a large degree to afford the needed support to agriculture in an emergency situation. The 90-day clause in the first place makes the system unworkable in the case of live stock. Even with the rediscount privilege for a similar period, which is optional with member banks, the time is insufficient to render substantial aid to live-stock loans. The Federal reserve system has, in the opinion of the stockmen, operated very much as ordinary banks, urging loans when all were loaning, calling loans when all were doing the same thing, and in a time of financial stringency favoring short-time loans where turnovers were rapid. An urgent appeal was made by wool men in June, 1920, for assistance from the Federal reserve system in financing loans upon wool secured by licensed warehouse receipts. They gave us a ruling that receipts would be acceptable collateral for rediscounting through usual channels for a period of 90 days, with privilege of rediscounting for a similar period and that such loans would be nonaccumulative. However, such ruling was subject to the

approval of the district governors, and we find that less than 10 pe cent of the warehouse receipts ever found their way to the Federa reserve system.

We do not mean to infer that the failure of the Federal reserv system to furnish live-stock men needed assistance in a period o financial crisis is due entirely to the indisposition of those in charg The condition is set forth and explained very clearly by a letter jus received from a banker in the heart of a range section. With you permission, I will read a portion of this letter pertaining theret This relates to securing loans through the $50,000,000 live-stoc finance corporation pool just organized in Chicago and New Yor but inasmuch as loans secured through this medium must conform t the rules and regulations of the Federal reserve system, the sam condition applies to both.

So far as this section is concerned, I do not see that it will afford much relie as you will note that all loans must conform fully to the requirements of th Federal reserve banks. Take ourselves—as you know the legal amount that w can advance any one firm or individual is 10 per cent of our capital and surplu or $6,500; the industry needs an agency that will finance lines larger than th ordinary country bank can handle. This business has been taken on by th live-stock loan companies, but since they are out of the market it seems to m that some other workable agency should be devised. Evidently, the stoc growers' finance corporation does not fill the bill, because it requires the i dorsement of a bank, and banks, of course, can not indorse an illegal loan. If w make these loans as agents for the cattle loan company, the industry is charge with the extra tariff that the loan company requires.

I will be glad to learn how this is working out. The plan and organizatio appear to be designed to relieve the pressure on the big outfits and leave th small rancher with a one-hand outfit to sweat out his problems between th local bank and some other agency that is induced to carry his load. Fro the standpoint of the industry as a whole, it seems to me that the end of th business really needing the help is such as I have in mind—men who actuall know the practical side of production and will be a credit to the industry 2 years hence if they can be permitted to weather this storm. There are thou sands of these men in the West who control water and grass and have th ability, but whose herds are in jeopardy on account of the money pressur These are the people to look to for production, and if there is any assistanc to be meted out it ought to be made available to them.

There appears to be a missing link between the western live-stocl grower doing business with his country banker with small capitali zation and the Federal reserve system. As in the case just cited the rule of the Federal reserve system would limit the loan to an one individual to $6,500, and a great number of customers of thi bank run in the thousands of head of sheep. Therefore, if they ar to secure substantial loans, they are compelled to go to the live stock loan companies or the banks of the larger cities, and whenever this is done, the interest and commission is so excessive as to seriously impair their chance for moving the tremendous financial burden that now is threatening their very existence.

If the live-stock grower is to secure from the Federal reserve system the financial assistance that is necessary for the successful operation of his business, and that the Federal reserve system intends he shall have, there must be some intermediary organization through which these loans may be secured, and the time of the loan, if relief is to be given to the live-stock man, must be increased to 25 to 30 months.

As was explained by this banker, the system as it now works is designed to relieve the pressure on the big outfits and the big banks,

and allowing the small banks and the smaller outfits to work out their own salvation.

There is something wrong with the system. It would appear entirely advisable for at least one member of the Federal Reserve Board to be a representative of agriculture, one with sufficient experience and close relation with the agricultural and stock industry, to pass intelligently on loans and means of financing live-stock growers.

The CHAIRMAN. Is that limit of loan a rule of the Federal reserve system or is that a law?

Mr. FAWCETT. The law.

The CHAIRMAN. So that if there is any blame there it is on us and not on the Federal reserve system?

Mr. FAWCETT. Yes, sir.

Senator LENROOT. I would like to ask if it were not a law, would not the tendency be for the big fellow to get all the accommodation and the little fellow none at all?

Mr. FAWCETT. I do not see how you figure it. It seems to me he would be in position to make a loan to the little fellow as well as the big one.

Senator LENROOT. But, is not the tendency for the big man to get more accommodation?

Mr. FAWCETT. Yes, sir.

Senator LENROOT. It has to be divided among the customers?

Mr. FAWCETT. Yes. But there is a difference in the interpretation of "little" in this case. A bank would call a man who owned 3,000 sheep a small operator. What would he benefit with $5,600?

Senator LENROOT. Here is a small bank; isn't it desirable for that small bank to extend loans to as many people in that section as possible?

Mr. FAWCETT. Yes, sir.

Senator LENROOT. Without a limit, the bank could lend it all to one.

Mr. FAWCETT. Generally they like to accommodate all of their customers.

The CHAIRMAN. How do they arrive at the limit to begin with? Do they limit it on the basis of the capital they actually have? I would think that the banks are not big enough.

Mr. FAWCETT. There it is. There is a missing link between the local bank with a limitation of 10 per cent of the capital—and this bank is as large as a great many of them—and the Federal reserve.

The CHAIRMAN. That leads us directly to the proposition of the branch bank, and nothing else, where you can get the assets of the big bank with the little bank as an agency.

Mr. FAWCETT. But you have to deal direct over the head of the little bank.

The CHAIRMAN. But if you have a branch bank——

Mr. FAWCETT. This bank was capitalized at $50,000 and surplus of $15,000.

The CHAIRMAN. If you were operating under a branch bank, that would not apply.

Representative SUMNERS. The chairman means a branch bank is part of a system with a million-dollar capitalization, we will say,

that simply the branch that runs out into that community the limit would not apply.

Mr. FAWCETT. May I ask what per cent of the banks are in the system?

The CHAIRMAN. About 11,000 out of 30,000 are in the reserve system.

Senator CAPPER. Do you not think that, generally speaking, the banks, whether they are big or little, have loaned every dollar each one had to loan?

Mr. FAWCETT. Yes; although we find the time deposits in certain sections are increasing. It seems that we need a little confidence instilled in the American people in order that they jar loose from those time deposits. But, generally speaking, the banks in the West are loaned to the limit.

Senator CAPPER. I do not think the banks are subject to any criticism. They have gone to the limit. Our banks in Kansas have loaned every dollar that they are allowed to loan.

Mr. FAWCETT. But you will see that this makes necessary the use of live stock loan companies. And you know just as well as I do that whenever you are forced by your local bank to go through other channels and to live-stock companies, and through them to the Federal reserve system, the interest and commission are excessive.

Representative SUMNERS. Your position is that in case of an emergency such as we have now, when your little banks are extending, the man behind the bank who has good collateral to put up, and many somewhere else who would be glad to take the investment, he would have to recognize a dependable avenue to make the loan. He finds himself unable to make the loan because he has to go through this exhaustive channel. I think that is one of the defects. In going through the financial situation, whatever we have—we have got to find a route around these little banks.

Mr. FAWCETT. I agree with you, and therefore it seems to me there must be some intermediary organization through which these loans can be secured.

Representative SUMNERS. I want to ask you about the collateral you put up. If you have these sheep already heavily mortgaged, in many cases beyond their possible value, where can you find anybody who has money to loan who would loan on such collateral?

Mr. FAWCETT. It would not be safe banking to do so.

Representative SUMNERS. Are these people seeking financial relief in your community able to tender unmortgaged security?

Mr. FAWCETT. In many instances they have mortgaged to the limit of safety, but in some cases they have succeeded in freeing the wool from encumbrance.

Representative SUMNERS. Do you have difficulty in getting money on wool?

Mr. FAWCETT. Yes, sir; and have had for a year.

Representative SUMNERS. Can you not make arrangements with your bigger banks in the cities by which they could take a mortgage on this wool and rediscount with the Federal reserve bank?

Mr. FAWCETT. The larger banks generally prefer to loan their money on quick turnovers. For instance, there are plenty of bonds,

as Swift and Armour, on which there is a quick turnover. This wool loan is for a long while, and it is not looked upon with particular favor when it has been held by a grower selling agency, for the banker knows that the selling agency is not going to make any money on it, if the wool is held by a speculator; as a rule a speculator can get all the money he wants, because the banker is satisfied that a reasonable amount and sometimes an excessive amount of profit is being made from it. Therefore, we find a large amount of banks prefer to finance the speculator rather than the grower.

Representative SUMNERS. It would seem they financed the wool to be held at these places where the profits were.

Mr. FAWCETT. It would look so. From 1920 to the present time we have experienced a great deal of difficulty. What few have reached the Federal reserve have been asked for individual insurance policies and various requests that have made it impracticable, and such practice is killing the warehouse receipt proposition.

Representative SUMNERS. What bank serves your territory?

Mr. FAWCETT. Well, we do business in practically all the Western States and we deal with practically all banks in the West.

Representative SUMNERS. I say what Federal reserve bank?

Mr. FAWCETT. We do business in practically all the Federal reserve districts west of the Mississippi River.

Representative SUMNERS. Is there any difference in policy among these reserve districts?

Mr. FAWCETT. There has been considerable difference. However, at the present time I think I am in position to say that the attitude is more uniform and also more lenient.

Representative SUMNERS. More favorable now?

Mr. FAWCETT. I believe I am in position to say that.

Representative SUMNERS. When did that condition first manifest itself?

Mr. FAWCETT. I should say, without giving the exact day or date, the 1921 wools; warehouse receipts covering 1921 wools—we are just fairly under way with those.

Representative SUMNERS. What relationship does that change of policy have to prices?

Mr. FAWCETT. I can not connect the two.

Representative SUMNERS. Are they still on the decline—I mean exchange quotations?

Mr. FAWCETT. I would say that last week's sales were somewhat on the decline.

Senator LENROOT. How do you account for that in view of the fact that the tariff has almost stopped importation?

Mr. FAWCETT. Senator, the effect of the tariff on the domestic wool industry is reduced to the vanishing point. In other words, it is of no avail when we have 18 months of wool on hand.

Senator LENROOT. I do not see how that could be, because from a mere speculative standpoint if we have a high tariff on wool and we have a surplus for 18 months, we know that from that time on we only produce half of what we need. I can not see where that has resulted in a declining market.

Mr. FAWCETT. The reason given by those best acquainted with the situation is that the passing by the House of the Fordney tariff bill

in its present form was the cause of a drop in the price of wool of possibly 2 cents a pound.

Representative SUMNERS. How did that happen? Do you mean on account of the reduction of the higher rate in the emergency bill?

Mr. FAWCETT. Because it affords practically no protection to the domestic woolgrower.

Representative SUMNERS. What is the ad valorem?

Mr. FAWCETT. The provision is 25 cents per clean pound, which would be approximately the equivalent of the old Payne-Aldrich 11 cents per grease pound. And the manufacturers' compensatory duty is levied on that 25 cents per clean pound basis. After that is provided there is a provision limiting any duty to 25 per cent ad valorem, which reduces the protection to approximately 5 or 6 cents on the medium wool which constitutes about 65 per cent of our domestic production.

Representative SUMNERS. In the ultimate working out of the tariff bill that is now pending do you have a 35 per cent ad valorem protection?

Mr. FAWCETT. Thirty-five per cent ad valorem maximum, which takes away two-thirds of the protection provided in the 25 cents per clean pound duty.

Representative SUMNERS. If the 25 cents per clean pound duty obtains then what would be its equivalent in ad valorem tax?

Mr. FAWCETT. It is according to the grade of wool. Fifty per cent shrinkage wool 25 cents per clean pound would be 12½ cents per grease pound, and that grade of wool is probably worth 18 cents per pound to-day.

Representative SUMNERS. Under ordinary prewar conditions, at what price can the American wool-producing industry thrive? At what price per pound?

Mr. FAWCETT. I did not get that.

Representative SUMNERS. Under prewar conditions at what price per pound for wool can the American wool industry proceed at a reasonable profit?

Mr. FAWCETT. Be produced at a reasonable profit?

Representative SUMNERS. Yes; under prewar conditions. Assume that we are returning to the general level of prewar conditions and assuming that we reach that level of prewar conditions, then what price would the American wool producer have to receive for his wool in order to stay in the business at a reasonable profit?

Mr. FAWCETT. Our cost of production is not complete for 1920. To the best of our knowledge at the present time——

Representative SUMNERS. Normal conditions.

Mr. FAWCETT. We are estimating that the present cost of production is somewhat reduced from 1920 costs.

Representative SUMNERS. Well, I do not want that. I am referring to the pre-European war condition.

Mr. FAWCETT. I grant you that is the question I am trying to answer.

Representative SUMNERS. It is normal conditions I am speaking of.

Mr. FAWCETT. Our cost is going to be reduced (the running cost) about one-fourth of 1919, which will indicate that we must have 26 cents per pound net to the grower, to make a reasonable profit.

Senator LENROOT. Assuming that the conditions were now on the level that they were before the European war?

Mr. FAWCETT. Yes, sir; 25 to 26 cents per pound.

Senator LENROOT. What were you getting back there?

Mr. FAWCETT. In 1910 we got 25 cents.

Senator LENROOT. Even then do you think you were producing a lot of profit?

Mr. FAWCETT. That depends on the mutton, or the lamb. The cost divided by the Tariff Commission is 48 cents and 52 cents, roughly speaking.

Senator LENROOT. What do you think the cost will be for this year?

Mr. FAWCETT. Next year's clip?

Senator LENROOT. Yes.

Mr. FAWCETT. Of course you understand this is an estimate. I would estimate that the 1922 clip will cost from 26 to 27 cents.

Representative SUMNERS. Then a reasonable margin of profit—you would have to get a reasonable margin of profit?

Mr. FAWCETT. The cost of marketing is 6 cents added to that.

Senator LENROOT. To bring it to Boston?

Mr. FAWCETT. Yes, sir.

Senator LENROOT. Without any profit to the grower?

Mr. FAWCETT. Yes, sir.

Representative SUMNERS. How much would you have to add to the figures there in order to give the grower a reasonable profit?

Mr. FAWCETT. About 40 cents per pound on the Boston market.

Senator LENROOT. That is in the grease, is it?

Mr. FAWCETT. In the grease; yes, sir.

Snator LENROOT. And the ordinary rate is about between 8 and 9 cents in the grease, in the specific rates?

Mr. FAWCETT. In the specifics on the 50 per cent shrinkage 12½ cents.

Senator LFNROOT. Is that what you figure the shrinkage now—50 per cent?

Mr. FAWCETT. We figure the shrinkage to-day less than we did at the time of the Payne-Aldrich bill. That was 66⅔ by reason of the wool being imported in the natural state. Now, by reason of that joker in the Payne-Aldrich bill permitting the skirting of wool the wool has been imported in a much lighter state, and the fact of the matter is that the wool imported now averages around 48 shrinkage instead of 66⅔.

Senator LENROOT. Now, what is the price of equivalent wool imported now, not speaking of carpet wool, but equivalent wool, which you say will cost you 33 cents?

Mr. FAWCETT. Recently about half a million pounds of full blood was laid down at Boston at 22 cents. The 9,000,000 pounds that was imported from May 9 to July 2, according to the Bureau of Markets, averaged a trifle over 16 cents per pound at Boston. Now, for the domestic grower to compete with that the cost of marketing, 6 cents, should be deducted, which would mean that the western grower to compete with that would receive 10 cents net at the ranch.

Senator LENROOT: Now, you say there has been a decline in production. I quite agree with you about this joker in the Fordney bill, but we must admit when the Fordney emergency tariff went into effect

we had free wool; and even assuming that we only had a protective tariff of 7 cents instead of 12½ cents on the grease wool, I do not see why there should be a decline as against 7 cents protection on the previous bill.

Mr. FAWCETT. I believe I can explain that. The rate of exchange allows the foreign producer to produce from 25 to 35 per cent advantage over the American grower. The British issue price was 31 cents a pound, which reflected a profit to the grower. Can we compete with them when it costs them $2.50 to run a ewe a year, and allow them a premium as well, and will cost us twice that amount under normal conditions?

Senator LENROOT. That same condition prevailed at the time the emergency tariff bill went into effect. You were meeting this flood of foreign competition then?

Mr. FAWCETT. During the period of the war and subsequent——

Senator LENROOT (interposing). No; I am speaking of immediately before the emergency tariff went into effect.

Mr. FAWCETT. This decline we speak of now has existed since June, 1920.

Senator LENROOT. I know, but you say it is declining still. I am trying to get at why it is still further declining.

Mr. FAWCETT. I can only answer that as it was answered before. This decline has only been 2½ cents per pound, possibly, and that was caused perhaps by the prospect of getting access to more imported wool at little or no extra cost. To establish my point, when the emergency tariff was threatened to be effective it seemed to have a strengthening effect on the wool market.

Senator LENROOT. Was there an advance?

Mr. FAWCETT. A little more movement.

Senator LENROOT. Where do you think the wool market would be to-day except for the emergency tariff?

Mr. FAWCETT. I can not answer that, and I hate to think, because these South American wools can be imported and laid down in Boston to-day for 15 and 16 cents per pound.

Representative SUMNERS. Let me see just a minute. You say you would have to get 40 cents in Boston to get the cost of production, cost of transportation, plus a reasonable profit; is that right?

Mr. FAWCETT. Approximately so.

Representative SUMNERS. Thirty-five to forty cents.

Mr. FAWCETT. You understand that these figures are an estimate. We have the 45-cent cost per pound approximated by the Tariff Commission, and we have 1920 cost of running ewes within 14 cents of knowing for 1919, so that we can estimate very closely the cost of the 1920 clip, which is now being marketed. But with respect to the 1921 clip it is speculative.

Representative SUMNERS. Do you regard this cheap price from South America as a temporary price? Those people under an improved world condition probably would put that price up.

Mr. FAWCETT. No, sir; we regard that as a permanent price, by reason of their cheap land and cheap labor.

Representative SUMNERS. Then, if your figures are correct, it seems that you are engaged in an industry that must have practically a 100 per cent protection.

Senator LENROOT. One hundred and fifty per cent.

Representative SUMNERS. At least 150 per cent. I am putting it conservatively. You must have more than 100 per cent protection in order to be able to go along. Even if the South American wool should go to 20 cents a pound, then you would have to have 100 per cent protection, would you not?

Mr. FAWCETT. If the manufacturers have to have 140 per cent——

Representative SUMNERS. I am not arguing the question, I am just trying to see what shape the industry is in, what the relationship of the industry is to the general situation.

Mr. FAWCETT. We expect to decrease our cost of production. We expect the foreign cost of production to increase through a period of time.

Representative SUMNERS. I asked you that question a moment ago, and you said that you did not expect it to increase.

Mr. FAWCETT. We do not expect it to increase to our equivalent.

Representative SUMNERS. I did not ask you that.

Senator LENROOT. He asked you as to the relative increase.

Mr. FAWCETT. Probably I answered that not as I intended to answer it. We expect the Australian wool to increase somewhat, because of their lands being taken up for grain farming, and somewhat in New Zealand, and to a degree in South America, but we expect that to be very gradual.

Representative SUMNERS. Yes. Now, then, what do you figure to be the future of the sheep-growing industry if, for instance, the Congress should not grant you, say, more than 50 per cent protection instead of 100 per cent?

Mr. FAWCETT. We expect to go as far as we can, and we will be forced out of business when our assets fail.

Representative SUMNERS. Now, I ask this question, and I do not ask it in any spirit of cruelty at all.

Mr. FAWCETT. I appreciate that.

Representative SUMNERS. If you are engaged in an industry that can not operate with even a 50 per cent protection, does not that suggest the possibility that that industry, so far as this country is concerned, is one not well placed? I am not making a statement at all now, I am just trying to get your view about it.

Mr. FAWCETT. I do not agree with you, Congressman.

Representative SUMNERS. I do not make the statement. I ask the question of you, for your judgment.

Mr. FAWCETT. The articles that we purchase should, if the manufacturers enjoy equal protection with the producer of raw materials, decrease accordingly.

Representative SUMNERS. Suppose the manufacturer only enjoys a protection of, say, 35 per cent ad valorem on his goods?

Mr. FAWCETT. We will be in position to operate cheaper, because the articles we buy will be obtainable cheaper.

Representative SUMNERS. I do not want to go too far into that; I simply want to inquire into the economic stability of the woolgrowing business of this country.

Mr. FAWCETT. It is not stable, and there is no degree of stability under the present conditions.

Representative SUMNERS. If you could reduce your interest rate, your hazards in marketing, and things of that sort, then I assume you would be able to produce cheaper?

Mr. FAWCETT. Yes; I presume so.

Representative SUMNERS. What does the average sheep man have to pay on the money that he borrows, including brokerage and commission and trimmings generally?

Mr. FAWCETT. In the West I would say 9 to 10 per cent; in many cases 12. Am I right, Judge Cowan?

Mr. COWAN. Nine per cent besides commissions. The man in charge of a loan company out there testified before the commission that it was 9 per cent, and then the smaller loans 10 per cent.

Mr. FAWCETT. Yes, around 10 per cent in the sections of the West that I have been in lately. The prevailing prices are around 10 per cent, and in many sections a bonus.

Senator LENROOT. Sheep will always be raised to a certain extent for the mutton value, with wool as a by-product anyway, will they not?

Mr. FAWCETT. To a degree, in the corn-belt States, where they are used as scavengers. It is estimated by the Department of Agriculture, and this estimate was carried on when the appeal went forth to increase both wool and mutton—it was carefully estimated that the number of sheep produced in the corn-belt States could be increased 150 per cent without misplacing other live stock, if there was any degree of stability in the industry. It has been a hit-and-miss proposition. I mention that simply to illustrate our possibilities if we had a stable market and were assured of a reasonable profit in pursuing the industry.

Representative SUMNERS. Is it more profitable to raise a mutton breed of sheep on the range than the wool breed, under ordinary conditions?

Mr. FAWCETT. That would vary so, Mr. Congressman, with conditions. We have certain range conditions that are particularly adapted to the fine wool sheep, and by reason of the brush or dry weather, and the necessity of herding in large bunches no other breed except the fine wool breeds are practical. Again, we have in the irrigated sections of Idaho luxuriant feed, and there we find it practical to raise the mutton breeds as they will not herd well in large flocks, and they must have more abundant feeds than the fine wool breeds. The same will apply in the corn-belt States. The popular breeds there seem to be the breeds more particularly adapted to mutton.

Now, Mr. Chairman, I have four other points that I would like to present, and I will make this as brief as possible. Shall I delay until to-morrow, or go ahead now?

The CHAIRMAN. I think we will have to finish it to-night. I do not believe we will be able to get the commission together to-morrow morning. I have not sent out any notice, and it would be very difficult.

Mr. FAWCETT. The fourth suggestion—and this is the one that the grower himself may enter into—is a better system of marketing our agricultural commodities.

It is a well-known fact that all of the efforts of agricultural colleges and the various extension organizations have been along

the line of increasing production and economy of production, but nothing has been done in regard to the economical distribution of agricultural products until late years. Perhaps the methods of distributing wool are more inadequate than the distribution of any other agricultural commodity. The sole market and method of distribution of domestic wool clip of the United States has been through 500 speculators. Wool to be properly marketed must be graded in broad commercial grades as recognized by the wool trade and marketed to the mill consumption through a period of time. Wool is sheared from the sheep in a very few weeks but consumed by the mills throughout the whole year. During this period of preparation for marketing the commodity must be financed. Generally speaking, it has been financed by speculators who have taken in many cases excessive profits in so doing.

The American Farm Bureau Federation has done considerable work along the line of more economical distribution of wool to mill consumption. This is done through growers selling agencies operating at concentration points now numbering eight, which handled approximately 50,000,000 pounds of the 1920 clip. The principle upon which this method of marketing is established is based upon commodity financing secured by warehouse receipts and prepared for market by efficient selling agencies. The wool is held by the grower and marketed direct to the consumer with one fixed commission which is made at approximate cost of handling. In this manner the grower is assured of the full market value for his commodity and is also assured of a larger portion of the consumer's dollar without increasing the retail price of the finished commodity to the consumer himself. The plan is not based on hoarding a needed commodity, neither is it based on controlling the commodity for the purpose of regulating the price, but for the purpose of shortening the route from the producer to the consumer. This is certainly a justifiable movement.

In order to successfully accomplish this the commodity must necessarily be financed. If financed by the grower, the financial burden is scattered over a broad area, as in the case of the firm with which I am connected as assistant general manager. We have at the present time approximately 35,000 consignments of wool in our cars, and practically all are financed by the growers or their local or correspondent banks.

There seems to be a disposition on the part of the large bankers and large banking interests to favor commodities being financed in the hands of speculators rather than in the hands of growers. Is there any logical reason why the grower should be denied the privilege of financing his own product while it is passing through the marketing stage? It seems to me that this is a saving that will be not only advantageous to the producer but to the consumer. Therefore, in our efforts to work out a more economical system of marketing, we need the support of the Federal reserve system in commodity financing upon warehouse receipts as collateral. This is one of the suggestions, that there should be a more favorable attitude upon the part of the Government and the Federal reserve system upon this method of financing, and that Government licensed warehouse re-

ceipts covering unicumbered agricultural commodities should be recognized as acceptable collateral for rediscounting.

The fifth suggestion we would make is a national law permitting cooperative marketing of agricultural products.

In a number of States we have a well-organized system of cooperative live stock shipping associations, which have given very satisfactory results in the way of efficient transportation of live stock to market. In some of the exchanges we have cooperative commission concerns; although many of the live-stock exchanges refuse membership to such organizations.

In this we are not asking for any power to control or regulate price of our commodity, neither are we asking for special favors, but we are asking for a Federal cooperative marketing law; we are asking for the privilege of marketing our commodity in the most economical way possible, thereby getting the producer and consumer closer together.

The sixth suggestion, a just tariff and equal protection for the woolgrower against foreign competition, that is accorded the manufacturer of our commodity.

We have had in the past various tariffs covering the wood schedule but have never had protection to a significant degree.

In the Payne-Aldrich bill, which was in force previous to 1913 the tariff on wool was placed at 11 cents per grease pound and the compensatory duty to the manufacturer of our comomdity was built upon such a tariff. A provision was placed admitting foreign wool in a skirted condition, and still the duty of 11 cents per grease pound was applicable.

The result of this to the domestic woolgrower was to decrease the protection from 11 cents per grease pound duty to approximately 6 cents to 7 cents, for by the skirting process the clean content was increased from 33⅓ per cent to as high as 65 per cent; yet the manufacturer of our commodity enjoyed a compensatory duty which was fixed upon the full 11 cents per grease pound duty, and in addition thereto a substantial ad valorem duty as protection.

In the Underwood tariff bill that went into effect March 1, 1914, and was effective until May 27, 1921, wool was placed on the free list, while the manufacturers of wool were protected by a 35 per cent ad valorem duty.

We maintain that this is an unjust discrimination against the producer, as previously stated.

And now let us look to the Fordney tariff bill that is now before Congress as to its effect upon the domestic wool producer.

From May 8 to July 2, according to the Bureau of Markets, 9,277,614 pounds of wool were imported into this country at a cost to the importer at port of entry of a fraction over 16 cents per grease pound. The provision in the Fordney tariff bill in its present form provides for 25 cents per grease-pound duty, which if applied to the wool in question would mean on the basis of 50 per cent shrinkage, a duty of 12½ cents per grease pound. However, the proviso in its present form limits the protection to 35 per cent ad valorem duty, which, if this wool is of 50 per cent shrinkage, will decrease the duty to 4.6 cents per pound, instead of 12½ cents per pound, which appears on first reading.

The CHAIRMAN. Is this carpet wool a heavy shrinking wool?

Mr. FAWCETT. The carpet wool in itself is not a heavy shrinking wool. It is a rather light shrinking wool. Of course, we are not able to tell exact grades of those 9,000,000 pounds. But 50 per cent is a very fair estimate of the shrinkage of the wool, and also 16 cents is a very fair estimate of the cost of imported wools at Boston.

But what of the compensatory duty to the manufacturer? The rate provided in section 1108 upon woven fabrics is 30 cents per pound of wool contained therein. If applied to this wool it would be the equivalent of an ad valorem duty of approximately 100 per cent, while the grower's protection is reduced to the vanishing point by the 35 per cent ad valorem clause. I might add that he has a protection duty in addition to the compensatory duty of 30 cents.

Representative SUMNERS. They give the protection duty to the manufacturer and then give him a compensatory duty and multiply it three or four times.

Mr. FAWCETT. The tariff bill in its present form is an insult to the intelligence of the domestic wool grower, a mirage on the horizon of the sheep range, and I, for one, refuse to believe that such was the intention of the Ways and Means Committee. It is stated that the application of the wool tariff is the most difficult of all tariffs to understand, and we prefer to think that it was an oversight rather than intentional.

The CHAIRMAN. It took them an awful long time to "oversight" it, if that is what they were doing.

Mr. FAWCETT. The cost of running a ewe and her lamb until marketing age in Australia is approximately $2.50. The transportation from Australia to Boston is about the equivalent to transportation costs from Montana to Boston. It is very plain to be seen that we must have adequate protection equaling the difference in cost of production between the foreign and domestic wools if our standards of living and the value of our lands are to be maintained. If no protection is afforded we must lower our plane of living to that of foreign competitors, and the value of our lands must sink to that of foreign lands. And what is more dangerous, the standard of thinking will also be lowered in proportion.

Suggestion sixth is for a just tariff.

We are not asking a protection in the form of a tariff that will work a hardship upon the consuming public. It is our contention that a great deal of misinformation is abroad as to the relative cost of raw material compared with the finished article, as pertaining to wool and its manufactures.

An extensive investigation made by the Taft Tariff Commission in 1910 in regard to the cost of the raw material, the finished product, and each step in the manufacture thereof, and inasmuch as no similar investigations have been carried on since that date, and the present value of wool in the grease is somewhat less than the market at the time of the investigation, the findings are very pertinent to the present situation. A copy of this report tracing the raw material to the finished product in the form of a choice worsted suit of clothes is submitted herewith.

The case cited is that of a suit made from fancy worsted cloth selling in 1910 at $15.39 net, wholesale, and retailed at $25. The cost of each major process and its relation to the final retail figure was as follows:

	Amount.	Per cent of total.
Wool	$2.45	10.64
Labor in making cloth	1.33	5.[illegible]
Material used in mill	1.14	.5[illegible]
Overhead expense in making cloth	.92	4.[illegible]
Profit in cloth	.23	1.[illegible]
Materials used in clothing factory	2.77	12.04
Labor used in clothing factory	3.74	16.3[illegible]
Overhead expense in clothing factory	1.12	5.[illegible]
Selling expense in clothing factory	1.91	8.[illegible]
Profit to clothing factory	1.07	4.[illegible]
Gross profit to retailer	7.69	33.[illegible]

The CHAIRMAN. Now, right on that point. I understand that, after the Ways and Means Committee had determined what sort of a duty it was going to put on raw wool, the Tariff Commission worked out the differentials in the Fordney tariff bill.

Mr. FAWCETT. I understand as much. I fail to reconcile that with the report recommending the tariff levied on the clean content duty, and at the raate of 33 cents per clean pound. I fail to reconcile the two. But I agree with you, Mr. Chairman. I was so informed.

Briefly speaking, the wool entering into this suit of clothes retailing at $25, wholesaling at $15.39 was 9 pounds, valued at 25 cents per pound, or $2.45 for the wool entering into this choice worsted suit. The cost of every item is contained in this table. The grower received 10.64 per cent for the wool entering into that suit of clothes. The present price of that same grade of wool is below the 1910 price. You can be the judge as to the present retail price of the choice worsted suit that was at that time retailing for $25.

Representative SUMNERS. Now, under your contention of the compensatory duty which will be levied under the pending bill, how much compensatory duty would be allowed to the manufacturer?

Mr. FAWCETT. The rule that used to be in vogue was 4 to 1, but I see that at present they take a basis even in excess of that, of 4⅓ or 4¼. I would not be sure whether it is 4⅓ or 4¼ to 1. But the Tariff Commission finds that 9 pounds of grease wool will manufacture 3½ yards of cloth. So you can see that possibly both are very much higher than is actually the case.

Representative SUMNERS. What I am trying to find out is this: With 9 pounds of wool at the present value, and the tariff schedule provided in the Fordney bill in operation, how much protection would the grower get, and how much compensatory duty would the manufacturer get?

Mr. FAWCETT. The compensatory duty should be simply the equivalent——

Representative SUMNERS (interposing). I mean under your construction of the provisions of the pending bill.

Mr. FAWCETT. My construction of that is that the manufacturer gets the compensatory duty based on 25 cents per clean pound.

Representative SUMNERS. No; I am just using these figures now, these 9 pounds. Just give the amount. What is your contention as to the protection which the grower would get on that 9 pounds, and what the compensatory duty would be?

Mr. FAWCETT. Under the present Fordney bill?

Representative SUMNERS. Yes; the pending bill. How much protection would the grower get, and how much compensatory duty would be allowed the manufacturer?

Mr. FAWCETT. That is a mathematical problem. I can get it, however.

Representative SUMNERS. Well, if it takes long to figure it, pass it.

Mr. FAWCETT. It is according to the shrinkage of the wool. At 50 per cent shrinkage the grower would receive 35 per cent ad valorem duty or 5.6 cents per grease pound. The manufacturer would receive, under section 1108, 30 cents per clean pound, or $2.70. He would receive 30 cents per clean pound of the wool entering into the 3½ yards of cloth.

Representative SUMNERS. The grower would get 5 cents?

Mr. FAWCETT. Yes; he would get 45 cents plus.

Representative SUMNERS. Well, you use 5 cents and 45 cents, and I do not know what you mean.

Mr. FAWCETT. The protection that the 35 per cent proviso would allow the grower on 9 pounds of wool shrinking 50 per cent and valued at 25 cents would be 8.7 cents per grease pound.

The CHAIRMAN. Well, is that 9 pounds of grease wool in the suit of clothes, or is it 9 pounds of clean wool?

Mr. FAWCETT. Nine pounds of grease wool in a suit of clothes.

Representative SUMNERS. How much would the total be? How much would you get on that?

Mr. FAWCETT. The grower would get 87 cents.

Representative SUMNERS. Then, how much would the manufacturer get, and how much would be his compensatory duty under your construction of the bill?

Mr. FAWCETT. Under section 1108 he would get 30 cents, which would be $1.35.

Representative SUMNERS. He would get $2.70 compensatory duty?

Mr. FAWCETT. I fail to figure it any other way.

The CHAIRMAN. What is it, he gets 23 cents a pound of clean content, or 25 cents?

Mr. FAWCETT. Thirty cents. The compensatory duty is 30 cents.

The CHAIRMAN. Well, if 9 pounds of grease wool shrinks 50 per cent he would only have 4½ pounds clean in the suit.

Mr. FAWCETT. Yes.

The CHAIRMAN. Four and one-half times 30, then, you would think represented compensatory duty?

Mr. FAWCETT. All right; what about his protective duty?

The CHAIRMAN. He is not talking about that. He is talking about compensatory duty.

Mr. FAWCETT. $1.35.

Representative SUMNERS. He would get $1.35, and the grower would get on it what?

The CHAIRMAN. Forty-five cents.

Mr. FAWCETT. No; 50 cents.

Representative SUMNERS. All right, now we have got it. Th is all.

Mr. FAWCETT. Therefore, instead of the 33 cents per grease p pound duty that the wool growers are asking, representing an add tional cost to the consuming public of $7.50 per suit of clothes, as son of the rabid newspapers represent, it would really not increase t cost price of a suit of clothes but little over $1 if the suit of cloth was made of pure virgin wool; and if made of 30 per cent to 60 p cent of shoddy, as a large percentage of the suits are, it would repr sent much less. We want the consuming public to know the exa relation that raw material bears to the finished.

Suggestion seventh is the enactment of the truth in fabric la providing for the compulsory branding of commodities manufactur from wool as to content.

The term "all wool" is deceptive, as was demonstrated by t Federal Trade Commission in nine hearings in June, 1920, as to t improper use of terms signifying and leading the public to belie that the commodity so labeled contained all virgin wool, and has be used to deceive the public. In each of these cases the Federal Tra Commission found unfair practices and orders were issued to desis

Some startling facts have been revealed in the investigations pe taining to this truth in fabric law now before Congress. In the yea 1915, 1916, and 1917, the last date obtainable, there was more wo shoddy manufactured in the United States each year than there we pounds of scoured virgin wool produced. While some of this exported, it gives an idea of the magnitude of the shoddy industr and the extent to which the consuming public is led to believe th they are purchasing commodities made from virgin wool when large percentage of shoddy or reworked wool is contained therein.

The manufacture of shoddy probably reached its zenith in 191 when 184,000,000 pounds was manufactured, according to statisti obtained by the Federal Trade Commission, and net profits ran a high as 73 per cent from the manufacture thereof. Is it any mor than just that the consuming public should be apprised of the co tent of the articles they are purchasing?

A referendum was recently taken by the American Farm Burea Federation upon this measure. The result was (and only a parti vote was polled at the time of making estimate) 97,000 votes in fav of the enactment of the "Truth-in-Fabrics" law by this Congres and 471 against, which shows the public's attitude toward this meas ure; yet the bill has been introduced twice and is yet without actio

Gentlemen, there is one thought I wish to leave with you, and tha is this: That when the agricultural industry sustains a loss in exces of $4,000,000,000 the purchasing power of the largest group of co sumers was impaired to just that degree and we can never get th business of this country on a firm foundation and again enjoy norma prosperity until the agricultural industry is prosperous.

Assuring you of the desire of the American Farm Bureau Federa tion, the farmers' organization, to assist and support you in you worthy efforts, I thank you, gentlemen, for the time given.

The CHAIRMAN. We are very much obliged to you, Mr. Fawcett.

The following statement from the National Wood Growers' Asso ciation is inserted in the record at this point, as it has a bearing on the subject of Mr. Fawcett's discussion:

SALT LAKE CITY, UTAH, *July 27, 1921.*

To the COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

GENTLEMEN: Having been informed that the questions of marketing and of agricultural credits would come before your commission during the week of August 2, the National Wool Growers' Association submits the accompanying statement of conditions and suggested remedies for your consideration.

WOOL MARKETING.

Action suggested.—No. 1: It should be made possible for a woolgrower holding a warehouse receipt for unencumbered wool to use such a receipt as collateral at his own bank without having the amount so secured included in his regular line of credit from such bank. No. 2: Greater confidence in consignment of wools (in preference to sale at home) should be established by provision for examination of accounts and books of concerns receiving the consignments. In the case of houses that also speculate in the same commodity at the same time, the provisions of the Federal warehouse act should be made obligatory.

No. 1.—Over one-half the wool produced in the United States comes from 17 Western States, in which sheep are largely or chiefly raised under range conditions. For the marketing of the wool produced, no such system has come into operation as applies in the marketing of grain or in the marketing of sheep or lambs. For the main part the wool is sold at home to traveling representatives of eastern concerns that operate chiefly on a speculative basis. In doing business in this manner, the clips, which vary from 5,000 to 100,000 pounds and over, are sold as a whole. The best of them contain three or four different grades and a larger number is common. This system is an obstruction to the education of the producer in respect to the grade, shrinkage, and quality of the different classes of wool contained in his clip. It is still generally adhered to largely for financial reasons. The growers, as a rule, are compelled to market their wool in accordance with their necessities rather than in accordance with their judgment. The local banks are accustomed to receiving the proceeds of wool sales at shearing time to apply upon the liquidation of indebtedness incurred during production.

In general the banks have not been inclined to encourage their clients to consign their wools to recognized marketing centers for more orderly and profitable distribution. The banks have experienced great difficulty in the handling of paper secured by stored wools. The 90-day limitation on such negotiable paper is inadequate for the requirements of the situation.

No. 2.—The principle of selling wool by consignment is generally recognized but financial conditions hinder more general practice along that line. To some extent, confidence in the consignment method has been impaired by unsatisfactory results. It has been felt that there is no safeguard for correct returns other than is insured by the integrity of the house handling the consignment. Since a good many of the houses receiving the consignments are also speculating in wools on their own account, it is not surprising that this feeling exists. It would certainly seem to be to the advantage of all concerned that the houses receiving consignments and at the same time acting as speculators should be required to handle their consignment business in accordance with the provisions of the Federal Warehouse Act.

MARKETING SHEEP AND LAMBS.

Action suggested.—Encouragement of cooperative buying by consumers.

The difficulties of satisfactory marketing of sheep and lambs are by no means so great as exist in the case of wool. The principal difficulty at the present time arises from the great discrepancy between the producer's price and that paid by the consumer. Progress is being made in cooperative selling and buying of feeder lambs, but the extremely high cost of meat distribution still goes on. It is highly desirable that there should be greater activity by governmental departments in educational and demonstrative work for consumers upon the advantages of cooperative purchase. This would not need to take the form of governmental activity in business but through distribution of information, the development of a favorable sentiment and necessary demonstration, great advantage could be obtained for consumers, and in large part the gap between the producer and the ultimate buyer could be bridged.

LIVE-STOCK CREDITS.

The possible emergency and permanent measures for improvement of live-stock finances were fully set forth in statements submitted by the National Wool Growers' Association to your commission under date of July 15. At that time one point of great value for present needs was overlooked.

Action suggested.—No. 1: Providing immediate loans on real estate. No. 2: Eligibility to Federal Reserve System of 30-months' paper secured by breeding stock. No. 3: Relief from the 10 per cent borrowing limit in the case of small banks through the operation of branch banks.

No. 1.—The present extreme distress of Western woolgrowers could be mitigated greatly by provision for immediate loans on real estate. Eighty per cent of range sheep owners would be found in bankruptcy to-day if payment were demanded on outstanding paper. The war-time profits were properly reinvested in the sheep business, but the extreme expenses involved to prevent losses during the winter of 1919–20 and the following demoralization of the 1920 and 1921 wool markets have compelled even the wisest sheepmen to borrow heavily. The banks are needing payment of these loans, which payment can not possibly be made from the sheep themselves. The majority of these debtors have lands which are very lightly mortgaged, if mortgaged at all. They greatly need the facility for borrowing upon these lands to repay pressing loans and also to obtain the longer termed loans which they must have in order to keep going until their breeding flocks can work out of present indebtedness.

The present limit of $10,000 is wholly inadequate for this service. Also, the limited funds now available for the Federal land banks are altogether too small to furnish the necessary service.

The available funds for loaning by the Federal land banks should be greatly extended and the limit of $10,000 removed.

No. 2.—This matter was fully presented on pages 8 and 9 of the statement submitted on July 15. Since that date the Stock Growers' Finance Corporation has announced its readiness to handle live-stock paper. It is advised by the corporation that all loans must be in the form eligible for rediscount by the Federal reserve banks. It is also stated that if found satisfactory loans "will be extended or renewed for periods of six months or less, not exceeding a total length of time of 30 months from the date of the loan."

If it is possible for the Federal reserve system to undertake the carrying of paper secured by breeding stock for a period of 30 months to relieve the present emergency, it would seem that the same method of relief should be made permanently available. When the next stress comes valuable time will necessarily be lost and the distress increased by necessity for reorganization of another corporation to perform a service, the machinery for which should be continuously available.

No. 3.—Financing of sheep and wool production is greatly hampered by the rule limiting a single borrower to 10 per cent of a bank's capital and surplus. We do not question the wisdom or safety of this rule. The trouble arises from the small capitalization of the banks with which sheepmen logically do business. It is natural and desirable that a sheep raiser should obtain his finances through his local bank. The majority of these local banks in the sheep raising territory are capitalized at from $25,000 to $100,000. The amount they can legally allow the average sheepman is wholly inadequate to his needs in times of stress.

The operation of branch banks would give to country borrowers access to the larger resources of the State banks and thereby through home connections render possible the obtaining of credit in necessary amounts.

Very respectfully,

NATIONAL WOOL GROWERS' ASSOCIATION,
By F. R. MARSHALL, *Secretary*.

We will now adjourn until Monday morning at 10 o'clock.

(Thereupon, at 5.30 p. m., Friday, August 12, 1921, an adjournment was taken until Monday, August 15, 1921, at 10 o'clock a. m.)

AGRICULTURAL INQUIRY.

MONDAY, AUGUST 15, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met, pursuant to adjournment, at 10 o'clock a. m. in the hearing room of the commission in the Capitol, Representative Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. The commission this morning will hear Mr. Martin F. Amorous, of Marietta, Ga.

Mr. Amorous, you may proceed.

STATEMENT OF MR. MARTIN F. AMOROUS, FARMER, OF MARIETTA, COBB COUNTY, GA., R. F. D. NO. 4.

Mr. AMOROUS. Mr. Chairman and gentlemen, I have no hesitation in asking for some of your valuable time, because I believe that this commission is willing to welcome any suggestion given by the humblest citizen of this country, with the great object in view of adding to the information which when finally totaled from all parts of our land may aid in solving the difficulties and very trying problems which confront the Nation. And perhaps you will permit me to say at this point that there is no commission which has a harder or bigger duty to perform than the one on which because of your peculiar fitness you gentlemen have the honor to serve.

I am engaged in farming in Cobb County, Ga. I do not present myself as a "know it all"; my excuse for responding to your summons is rather after the order of an "elder statesman," that perchance from my experience of many years I may contribute something from history, hoping it may be of value to us all.

The disorder in our economic life now spreading all over our country, threatening the living of all our people, is not due to any natural cause. Fundamentally we all derive our living through labor from nature by agriculture and commerce.

Money as the mill to which we must take our corn to grind has taken too much toll. The farmer is "busted"—and I refer more particularly to the cotton farmer; and when I use the word "farmer" I use it because I am one myself.

I repeat, the farmer is "busted," his merchant is crippled, his bank a cold-storage house for frozen credits. That is about the clearest way I can put the situation.

That money is taking too great a toll is illustrated by the case of a Negro farmer who placed a wagonload of tobacco in a warehouse

and some time thereafter ordered its sale. When the account was mac up the Negro owed the warehouseman 54 cents. The warehousema said to the Negro, "Mose, just bring me a chicken the next time yo come to town." In about two weeks the Negro came in and he ha two chickens. He said, "Boss, here's your chickens." The war houseman said, "But, Mose, you only owe me one chicken." Th Negro replied, "Yes, Boss, I know dat; but I brings another wagoı load of tobacco."

We must all admit that disaster exists in our economic life. M W. P. G. Harding, governor of the Federal reserve system, wrote:

The living of all begins with the farmer, and anything that affects his buyir power is soon reflected in the business of the merchant and the manufacture The farmer should be aided and stimulated to the full measure of his harvest.

Now, gentlemen of the commission, what I have to say and an comments I may make are along the line of proving my theory th the cause of our economic failure is due entirely to money taking to much toll from trade and industry.

Never in the history of the land has any nation suffered a busine depression following a season of bountiful crops. There can not b an overproduction of any commodity essential for the living of mai unless you measure it by money.

The need of man is a living—food, clothing, and shelter. Thes three things, all and each, being the product of labor, comprise th real wealth of a people.

In the organization of society, to labor in the pursuit of a livin there are but two systems, namely, the system of agriculture an the system of commerce. The first is the actual producer and th second is the exchange, barter, or distribution of one man's produc with the other.

Following these primary and natural lines, there is no reasoı why the people of this country should ever have a business depres sion—unless we suffer a famine of our crops. Hence there is n fundamental cause for the depression now spreading over this coun try, threatening the living of all the people, in a land of plenty.

The statement that we must suffer for bread because the peopl of Europe have lost their buying power is neither sound nor true George Washington and our forefathers proved this even while a war, and during a period when they had less real wealth than we have to-day. Hence, as all we can get from Europe is gold, and as we can not eat gold, nor is gold raiment, nor will gold keep the rain out of our houses, wherein can we be in need of more gold from them?

Currency was introduced into society as an instrument of commerce. Various articles were used in the primitive exchange of products, from cattle to salt, and metals finally became the more popular.

During the administration of President Cleveland we adopted a standard and fixed the unit dollar at 25.8 grains of gold—this being fixed by "fiat" of Congress. At that period we were debtors to foreign countries to the extent of $2,500,000,000 in gold, and while it was argued against the adoption of a gold standard "that it would be a physical impossibility for this country to ever produce $2,500,000,000 in gold the favorable argument was made that it could be paid off with 32,000,000 bales of cotton, and the sustaining argument was that

having a monopoly of cotton if the Government would take over the cotton crop, handling it as a merchant, charging a reasonable price to foreign countries, that debt could be paid off with 18,000,000 bales of cotton, and the South could be pushed up to produce it in one year."

We thus, by legislation, added a third system to the science of political economy, and really limited agriculture and commerce and all their expansion and development to the amount of available gold and credit based on gold.

Gov. Harding in his book on the finances and policies of the Federal reserve system lays down this truism, "that no matter how desirable a continued expansion of trade and commerce may be it must accommodate itself to the amount of capital and credit available." That at this time is limited to $2,500,000,000 to $3,000,000,000 of gold, that we now have in this country.

It soon developed that with the limited supply of gold this great Nation could not develop but a small portion of its resources; nor could it continue the necessary amount of commerce for an increasing population. So in an effort to provide a greater credit of capital than our stock of gold supplied, we adopted the Federal reserve system of banks. In this act, the Congress implied an elastic system of currency equal to all the needs of agriculture and commerce. That was the fundamental intention of that law.

It had the indorsement in these essentials of many eminent financiers. It began business in 1915 with a capital of less than $100,000,000 all subscribed by member banks, which are limited to receive 6 per cent on its earnings, all other earnings going to the Government as a franchise tax, and to surplus account. While no limit was fixed for it, of an amount that it might retain as a surplus, the law did provide that—"one-half of the net earnings shall go to a surplus fund of the bank until it will amount to 40 per cent of the capital stock."

This surplus to-day is $202,000,000, or 200 per cent of the paid-in capital stock. It further provided, that "the net earnings going to the Government can be used in the discretion of the Secretary of the Treasury to supplement the gold reserves, or be applied to a reduction of the bonded indebtedness of the Government."

The last report of the Federal reserve banks shows $2,400,000,000 of earning assets, which, at the late rate of 7 per cent, would show $168,000,000 interest earned last year on its $101,000,000 of capital.

With this statement of facts it is apparent that this "expansive currency system" has also the power to contract the currency and retire money from its only public use, circulation. Money has no value to man except as a circulating medium. And the continued expansion and increasing development of trade and industry can reach a height that the functioning of the Federal reserve banks will of itself pull them down—the greater the loans and discounts and corresponding increase in deposits requiring the retirement of gold as reserves.

Senator McNary. Let me ask you a question right there: Are you reading from a speech made by somebody or is it something you have prepared?

Mr. Amorous. It is from something I have written, though I am quoting from what Mr. Harding and others have said.

Senator McNARY. I was wondering whether it was your own statement or something that somebody else had said or written.

Mr. AMOROUS. Yes, sir; this is something that I prepared. But these figures came from the Federal reserve bank reports. I might explain that I am not here to criticize Mr. Harding, or the Federal Reserve Board, or anybody else. But personally I had an interview with Mr. Harding last October, in which I outlined a forecast of conditions that were coming according to my view—that if cotton were sold at 20 cents a pound it would impoverish the South, and if the individual farmers withheld their cotton from the market it meant bankruptcy for the merchants and the banks. And while on that subject I might say that Mr. Harding thought I was "unduly alarmed." He said that within 30 days cotton would advance in price, the farmers would sell a part of their crop, pay off their debts and everything would go on all right. That was a difference in judgment, that is all. I have no doubt he was sincere in his belief, so that any reference I may make to anybody is not personal, is not meant as a personal criticism. I am willing to grant that everybody else is as honest as I am. I only claim that nobody is more honest than I am. Money has no value to man except as a circulating medium. You gentlemen no doubt understand what I am leading up to, which is that the cause of our depression is due entirely to money taking too much toll out of trade and industry. I may be getting a little far off the particular subject, but will come back in the end to the argument to sustain my position.

As you gentlemen well know, if you go to a bank and borrow $1,000 you give your note and take it over to the receiving teller and deposit it. The statement of the bank for that day will show an increase in loans and discounts of $1,000, and an increase in deposits of $1,000, and an increase in reserve of $80, being 8 per cent, without using a single dollar of cash.

The CHAIRMAN. That increase in reserves of $80 would not be held in the bank's vault. That would be $80 held as a reserve by the Federal reserve bank, I suppose?

Mr. AMOROUS. You may be more correct than I on that, but the member bank must hold a certain percentage of reserve, sometimes 7 per cent or 8 per cent or 15 per cent, according to how near the bank is to the reserve center.

I think, however, the exact amount is really immaterial, for the principle I am trying to lay down is that they have to provide a reserve or a "hoarding."

The CHAIRMAN. That is true; but I think it would be wrong for the impression to prevail that that reserve is held in the vault of the bank, because it is not. It is a reserve held now in the Federal reserve bank.

Mr. AMOROUS. There is some reserve they must retain themselves.

The CHAIRMAN. A member bank is not required to hold any reserve at all in its own vault if it is a member of the Federal reserve system.

Mr. AMOROUS. The point is that a reserve must be maintained against deposits. It is done without the depositor paying a single dollar of cash in the bank in the case I have mentioned.

Senator LENROOT. They have $80 that could not be utilized?

Mr. AMOROUS. It is hoarded. That is the point—that legitimate operations will cause the hoarding of money in that way, thus contracting the circulating medium.

The CHAIRMAN. I think that statement would have been true under the old national banking system, but I doubt very much if it is true under the present system.

Mr. AMOROUS. Mr. McFadden told me that if all of the banks of the country—I believe some 20,000 or 30,000 of them—were to comply with the requirements of the Federal reserve system we would not have any money in circulation.

The CHAIRMAN. I think there must be some misunderstanding of the situation.

Mr. AMOROUS. Inasmuch as there is only $3,000,000,000 of gold in this country, and the Federal reserve bank is collecting interest on $2,400,000,000, it is plain to see that it is only a question of time when all the real money will be owned by the Federal reserve bank. I mentioned that to a banker the other day and told him it was only a question of time when they would get all of the money, and he replied "They have it all now."

Representative SUMNERS. Do you mean owned or held?

Mr. AMOROUS. I will give you a little concrete illustration of what happened in 1915 and you will see the point I am making. While it is true that the member banks have from $15,000,000,000 to $17,000,000,000 of loans and discounts, earning $1,200,000,000 to $1,360,000,000 in interest each year, it is also possible for the Federal reserve bank, acting as a "kitty," to in time hold all the banks' gold, as gold is not being produced as fast as they are gathering it in on discounts.

Senator LENROOT. You mean by that simply that the expansion of credit could reach such an extent that if we restricted the circulating medium it would impair the reserves?

Mr. AMOROUS. No; the Federal reserve banks will have it all.

The CHAIRMAN. If you mean gold they have it all now, practically, haven't they?

Mr. AMOROUS. That is, all the real money, gold.

Representative SUMNERS. But as credits were contracted they would withdraw the reserves from the Federal reserve bank?

Mr. AMOROUS. I am not a banker, but a farmer. I am looking at the situation from the point of a man up a tree, a man on the farm.

Representative SUMNERS. When a bank makes a loan it sends a certain amount of money on hand to the Federal reserve bank to be held as reserve?

Mr. AMOROUS. Yes, sir.

Representative SUMNERS. Until it gets to the point where, you say, the banks can not loan any more money, because it has no more money to loan. That is your theory?

Mr. AMOROUS. Yes, sir.

Representative SUMNERS. But as the loans began to contract would not they begin to draw down the reserves?

Mr. AMOROUS. Not necessarily.

Representative SUMNERS. Why not?

Mr. AMOROUS. The reserve increases.

Representative SUMNERS. Not when they contract their loans. When a loan is paid off at a bank, then it is entitled to drawn down some of this reserve.

Mr. AMOROUS. That is true. They could get continual credit at the bank for rediscount; yes, sir.

The CHAIRMAN. You may proceed with your statement.

Mr. AMOROUS. That money is taking too much toll from trade and industry is borne out by the statement of the Federal Reserve Board, page 68, and I am quoting from their book:

> That a charge to depositors on checks of 10 cents per $100 upon the business handled by the Federal reserve banks last year would have cost commerce and industry $135,000,000.

That is more than the capital of the Federal reserve bank, that amount charged in one year.

The CHAIRMAN. In your argument you are making no distinction whatever between deposit currency, credit, and asset currency or gold currency. That distinction is absolutely essential in order to arrive at any conclusion at all with respect to the Federal reserve system. The statement you have just made illustrates that fact—the exchanges that are accomplished by deposit currency through checks is probably as much as 25 times as great as the exchanges effected by money currency.

Mr. AMOROUS. Yes. You see my point is to show what money has taken from trade and industry; they have not left them the "quid pro quo" from the products of exchange; they have taken it all in through this system.

The CHAIRMAN. You are undertaking to do that on the basis of money currency, omitting the factor, which is the biggest factor in the equation, of deposit currency, check currency.

Mr. AMOROUS. That is all true, but it is not necessary for me to develop that in order to prove the proposition I have laid down—the proposition of what has caused our decline. The lifeblood of commerce has been hoarded in the banks, taken from legitimate trade and industry, legitimately taken from commerce.

Senator LENROOT. Take your own illustration, of a man borrowing $1,000, which is placed to his credit. Deposits are increased by $1,000 and loans and discounts are increased by $1,000. Do you assume that that $1,000 stays in the bank to the man's credit?

Mr. AMOROUS. Very often it is not there at all.

Senator LENROOT. But you assume that the credit stays there?

Mr. AMOROUS. Yes, sir; he checks against it from time to time.

Senator LENROOT. Of course. But assume that that deposit is immediately drawn down to the extent of the loan.

Mr. AMOROUS. Not always.

Senator LENROOT. Often.

Mr. AMOROUS. Suppose you wanted to borrow about $60,000. They would take a note from you for about $70,000 and charge you the legal rate of interest, which is 8 per cent in our State—Georgia—on the $70,000, but would give you authority to draw on only $60,000. That is, they give a credit of $70,000, but you must promise not to draw down more than $60,000.

Senator HARRISON. Is that the practice in the State of Georgia?

Mr. AMOROUS. Yes, sir; but they learned it from somebody else. In 1915, "to move the cotton crop," Mr. McAdoo deposited $15,000,000 of Treasury money in the Federal reserve banks of Richmond, Atlanta, and Dallas. They, in turn, deposited this money in the member banks, which member banks loaned it at 6 per cent to individuals—and that is a reasonable rate of interest, 6 per cent—taking their notes and indorsing them they got $15,000,000 more from the Federal reserve bank. That they repeated again and again until they had loaned out $125,000,000 at 6 per cent, or 48 per cent was earned on the original deposit of $15,000,000. Like a game of poker, when one man wins all the money the game stops. Money as a mill is taking all the corn for toll.

And, gentlemen of the commission, if all the money in the country were handled at one time in the same way it would only take two years for the banking interests to own all of it—48 per cent in one year would approximate 100 per cent in two years.

The statement made by the Federal reserve banks shows that they had a little less than $100,000,000 when they started—around $90,000,000. In six years, according to the last statement issued a few weeks ago, they had $202,000,000 of surplus and $42,000,000 of "reserves for franchise taxes." And they had expended $18,000,000 in buildings. Their overhead expenses were about 20 per cent of the earnings since they were organized. You will see at that same ratio it is only a question of time when they will have all the money we have in the country, gold being the only money. They have, I think, now $2,500,000,000 of actual gold in the Federal reserve banks. Of course, for some of that they have notes out against it. I think, according to the last statement, they had 83 per cent as against circulating notes.

Those who questioned the bankers' statement that they have no money to lend, with these facts before them, can have no doubt of its truth. They have told us that right along.

Senator HARRISON. Is that true now?

Mr. AMOROUS. No, sir; not now, but it is discriminatory in a way. In December of last year I went with a farmer with his warehouse receipts for 28 bales of cotton, when he wanted $60 with which to pay his taxes, and they would not lend him a dollar on it.

Representative SUMNERS. What did they say?

Mr. AMOROUS. They said they did not have the money. I went to the head of the Federal reserve bank in Atlanta about it, and he said, "Martin, you can go and tell any one of the bank presidents"—and I knew them all—"that we will lend them all the money they want on agricultural paper." So the first bank president I struck I mentioned it to him, and he said, "Yes, Martin, I know that; but the rate of interest they charge us robs us of all profits in the transaction, and we can not do it."

Senator HARRISON. What is the interest charge?

Mr. AMOROUS. Eight per cent, limited by the law of the State.

Senator HARRISON. What did the Federal reserve banks charge?

Mr. AMOROUS. I am pretty sure it was 7 per cent at that time. I believe there are certain penalties in regard to member banks, that they have to pay a certain larger amount after they reach a certain amount of discount.

Senator HARRISON. It is a progressive rate?

Mr. AMOROUS. Something like that.

Representative SUMNERS. Did those banks claim they had gotten into a position where the progressive rate of interest had begun to operate?

Mr. AMOROUS. No; they did not say that, but that they could reach that point.

Representative SUMNERS. What is your judgment about the situation? Was the progressive rate about to come into effect or did they not want to lend the money?

Mr. AMOROUS. My judgment is that they did not have the money, that they told the truth about the situation. The banks in the South had loaned about $200 for each bale of cotton that was grown, and that bale of cotton was only worth $50. Their only means of getting the money back was through the sale of the cotton by the farmer who grew it. They did not sell the cotton. It is said there are 500,000 bales of cotton in the farmers' hands now, and they won't sell it to pay their debts.

Senator MCNARY. You mean more than 500 bales, do you not?

Mr. AMOROUS. Oh yes; 500,000 bales. There are $471,000,000 of loans and discounts in the banks of Georgia now. The farmers owe the retailer, and I do not believe the retailers averaged over 10 per cent in collections last year. The fertilizer companies are in something like the same boat. The American Chemical Corporation collected 32 per cent last year, and they have the merchants between them and the farmer in most cases. The Armour people collected about 25 per cent of their debts last year. So that the means of repayment is not there. The loans made are at the rate of $150 a bale more than the cotton will bring as it stands to-day. They loaned at the rate of about $200 a bale on the crop grown.

Senator LENROOT. Then, instead of the banks making all the money, they stand to lose a lot of money?

Mr. AMOROUS. The farmer invested that $200 a bale in mules from Missouri, corn from Iowa, wheat from Minnesota, automobiles from Detroit, and fertilizer from New York and Boston. That is about the way they stand on that $200 a bale loaned the farmers, and it is not there.

Senator HARRISON. Of course, when the farmers borrowed that much money on a bale of cotton the cotton was selling at a very much higher price?

Mr. AMOROUS. It was selling at 45 cents a pound at that period. One bale of cotton would have paid the loan.

Senator HARRISON. And the price of cotton afterwards went down?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. The head of the Federal reserve bank at Atlanta told you they could loan member banks all the money they wanted on agricultural paper?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. And you went back to the member banks and they said that was true but that the rate was so high they could not make anything out of it?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. Because of the progressive rate. And of course they had to indorse the paper they discounted at the Federal reserve bank?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. That was the reason why the farmers could not get money at that time?

Mr. AMOROUS. Yes, sir; that was it at that particular time. It was also true, while I have seen it stated otherwise, that the banks would not let farmers have as much credit as they would manufacturers or even speculators. The farmer never had his collateral in the same shape for pledging it as the manufacturer did. He did not have his product in a warehouse or an insurance receipt for it. There are a good many reasons why the banks could not give them credit. As to the banks in the south, their proper function is to furnish money to make the crop with, and they then have no money to lend on the crop when gathered. It has been the custom for years that they would have to go to New York—before we had the Federal reserve bank system—to borrow money on customers' paper, whatever amount they could use, for moving the crop as we call it. With the organization of the Federal reserve system those banks were limited to their discounts to the Federal reserve bank in their district. Theoretically they can borrow anywhere—from any other member bank for instance—but practically the rate being fixed so that they can have no profit in it, they do not do it unless forced to do it by circumstances. I believe Atlanta did borrow from Cleveland and Buffalo. There may be a lot of money up here at the season in the year when it is wanted there, but they can not very well get it on account of the fixed rate of interest.

The CHAIRMAN. But they have been getting it?

Mr. AMOROUS. Yes, sir; but under the stress of circumstances, like the rabbit climbing a tree—they are "obleeged" to do it.

Senator LENROOT. Is not it a fact that the banks were too liberal when they loaned $200 a bale on cotton?

Mr. AMOROUS. Well, it was not the opinion of anybody that they were loaning too much. For instance, the president of one of our biggest banks addressed a meeting of farmers at our State capitol, in connection with the secretary of agriculture of our State, and other prominent men, telling them to hold their cotton for 50 cents a pound. He was as loud in telling them that as anybody else. I said to this president:

> This farmer tells me he held his cotton for 50 cents a pound because you told him to do it.

The president of the bank said:

> Yes; I did. And who would ever have thought cotton would go below 50 cents a pound?

Senator LENROOT. Then both the bank and the farmer were speculating upon the price of cotton, were they not?

Mr. AMOROUS. While that may be true, about speculation, we have got to treat conditions. For instance, if you gave your child a dollar and he went out and spent it all for candy, are you going to call in a doctor when he gets sick or let him die?

Senator McNARY. What is you remedy for this situation?

Mr. AMOROUS. May I finish up that suggestion and then take up the matter of the remedy I recommend?

Senator McNARY. All right.

Mr. AMOROUS. I did come up here in October and suggested this remedy to Mr. Houston and Mr. W. P. G. Harding:

If cotton is sold for 20 cents or less it means impoverishment of the South and if individual farmers withhold their cotton from the market it means bankruptcy for many merchants and banks, therefore the welfare of the people demands a practical remedy to prevent a catastrophe, and I suggest the following as the only remedy I can conceive of that will relieve the situation:

1. That the Government, through the Federal reserve and local banks, loan or advance 25 cents per pound, basis middling.

2. That the Government has the right to esell this cotton for not less than 40 cents per pound.

3. The Government is guaranteed by the borrower the right to limit his acreage of cotton for 1921.

4. The Government to receive a reasonable interest and a commission for selling.

I laid down the proposition that the banks were the real owners.

Senator McNARY. The result of that proposition would be that the Government would pay 40 cents a pound for the cotton and own it?

Mr. AMOROUS. Let me develop that a little bit for you.

Senator McNARY. That is the way it would work out.

Mr. AMOROUS. The banks really owned all the cotton. That is what I claimed at that time. They had advanced $200 a bale, and it was worth then 20 cents a pound, and while the farmer did have possession of it is was open to the speculative price on the New York Cotton Exchange, and its value was decreasing every day on the exchange. I said if this policy were pursued it would stop speculation and they could sell the cotton through one agency, all that the market needed, and they could get 40 cents a pound for it. That was the same argument that was used to sustain favorable action on the gold standard in Mr. Cleveland's time. It was not anything new in that particular, and I claimed that other countries were doing it for their products.

The CHAIRMAN. That was simply a scheme for the Government to take the cotton and hold it and distribute it at a fixed price, on the theory that it had such a monopoly of cotton that it could sustain the price on that basis. Otherwise the Government would have had to hold the bag for any loss sustained.

Mr. AMOROUS. The chief concern of government should be the condition of the people. Would not it be better to do, even if they had to risk a loss on some of it, that the money would be paid out among the people and be circulating? It could not be any loss, as it would be in the hands of the people, and it is much less a loss to them than if it is hoarded in bank.

The CHAIRMAN. What do you think the corn farmers, and the wheat farmers, and the vegetable farmers of the country would say if we held up the price of cotton to 40 cents a pound, and the price of other things went down below the prewar basis?

Mr. AMOROUS. Mr. Houston asked me that very question; and I said—

Mr. Houston, in asking that the cotton farmer be stabilized I ask that you restore the buying power for the man who is the customer for wheat and corn. On the other hand if you were to stabilize the wheat and corn farmer, you would not provide a compelling customer for the cotton. But if they will

come to you asking for a reasonable loan, I would ask the same thing for them. The United States is in the banking business, through the Federal Reserve System, and if they will come to you, and ask for a reasonable percentage of the cost to produce it, and if he is a good moral risk, and gives you good collateral, why of course lend it to him.

I think it is most important for you to spend every dollar in the Treasury, if the people are thereby saved from bankruptcy and starvation.

The CHAIRMAN. The fact that you could not get up the price is shown by the fact that the bank loaned them $200 a bale and still the price went down?

Mr. AMOROUS. Eighty thousand bales of cotton were sold to Czechoslovakia at 58 cents a pound, delivered there. Mr. Frank Inman told me it cost 2½ cents to 3 cents a pound to deliver it. That was 55 cents a pound, say, f. o. b. on this side.

Senator HARRISON. When was that?

Mr. AMOROUS. Along about October. I only got that from the newspapers. But I know they only paid 10 cents a pound for the cotton. So the exporter got about 40 cents a pound, and the Government War Finance Corporation helped them finance the transaction. I myself saw in the papers where $2,000,000 was paid on that.

Senator LENROOT. Do you know that European prices have fallen the same as ours?

Mr. AMOROUS. That is very likely; yes, sir; or to some extent at least. And freights have fallen.

Senator LENROOT. Not to some extent, but it is shown that prices in Europe have fallen to about the same degree as in this country.

Mr. AMOROUS. But I was answering the question propounded by Chairman Anderson. I say practically you could have gotten all you wanted at that price. Cotton is raised in other countries, and about 3,000,000 bales of cotton are grown in the East Indies, but it is not a direct competitor with American cotton. It is a very short staple cotton, an unclean cotton, and it is not taken up by the English mills on the same basis as the American cotton.

Senator LENROOT. Why shouldn't we stabilize the price of wheat and corn the same as you request a stabilization of the price of cotton, if we are to go into that subject?

Mr. AMOROUS. I have no objection to that if it will save the people from bankruptcy and starvation.

Senator LENROOT. What are we going to base it on?

Mr. AMOROUS. What do you mean?

Senator LENROOT. Are we to have an artificial price? If the Government pays 50 cents a pound for cotton and $2 a bushel for wheat, how is it to do it?

Mr. AMOROUS. You may not agree with this view, but I claim that cotton is a better asset to issue currency on than even bonds. The history of the cotton business is that from 3,000,000 to 5,000,000 bales of cotton from October to June go all over the world simply on bills of exchange.

Senator LENROOT. Your remedy is to further increase the volume of currency, is it not?

Mr. AMOROUS. That was the intention of the people that adopted the Federal reserve bank bills, sir. They are greater than I, but all the authorities on finance for ages back have claimed that we should have a currency that could carry the products of the country.

Senator LENROOT. If we increased the currency enough our money would have about the same value as the German mark has to-day, would it not?

Mr. AMOROUS. Well, I claim also, and I think trade and commerce shows it, that there is no value in money other than its exchange value. Chairman Anderson might go down here to some store, right with the money he gets from the Government as his pay, and pay $10 for a hat, and Mr. Lee might take money received from the same source and go down to a store and pay $5 for the same kind of hat. It is simply a matter of the exchange value of the money for products. There is no intrinsic value in the gold dollar.

The authorities, even Prof. Fisher, of Yale, agree to that general proposition. I saw in the paper sometime ago where Prof. Fisher proposed to establish the dollar. He also made the statement that our dollar at a certain period of time, two or three years ago, was only worth 46 cents in trade, and 66 cents at another time. It may be worth a dollar now; I do not know. Mr. Samuel Gompers or Secretary Wilson, I believe it was, came before the Congress and said the gold dollar was worth only 33⅓ cents, and the Congress evidently believed it, because they complied with what he wanted, for they added to the wages of the men they represented.

So where is your authority to say that our dollar has ever been worth $1 intrinsically? The Congress declared that 25.8 grains of gold should be a dollar, and that is all it has ever done. If this Congress declared there would be a loan of 25 cents per pound on cotton it would pass current all over the world for more than 25 cents. So you can do more with cotton than with gold. Isn't that true, Senator Lenroot?

Senator LENROOT. No; I think not.

Mr. AMOROUS. Well, of course, you know the old saying, "Many men of many minds." The ideas I have on this subject are that if you want to stabilize the dollar, as Prof. Fisher wants you to do, that dollar when stabilized will not create another dollar, but if you stabilize "the man" he will create another bushel of wheat or a barrel of flour or a bushel of corn or a bale of cotton, which is best for the people; you are doing an act of "stabilizing" that is more definite and valuable to all the people than in attempting to stabilize the dollar.

The fact that a bank with $100,000 capital will earn $8,000 does not mean that they have created that much more money, but they have taken it from some other community. Man by labor does create products; these products are the only wealth.

I am not surprised that you do not agree with me. My environment, of course, has not given me an opportunity to learn a good many things that other people, perhaps, know; but these are my views, based on experience.

To get back to my point which I am trying to prove, that the cause of our depression is money taking too great a toll out of trade and industry, I will mention, in the matter of cotton, a man who was worth property clear of debt $125,000 in January, 1920. He made 1,000 bales of cotton. The expense necessary for the production of those 1,000 bales of cotton swept that farm, cotton and everything else, from under the owner's feet. He is now a clerk in a store in Jacksonville, Fla.

Another man in Georgia made 480 bales of cotton, and he owned his farm and was known as a capitalist. He lost $50,000, and he can not pay his debts by selling his cotton and his farm.

Another little neighbor of mine, who bought his place a little over a year ago—or nearly two years ago now—and had a new house on it, and paid about $8,000 for it, including 32 acres of land—which he put in his wife's name when he bought it—was swept off of his feet last year, and his horse was sold for $5. He is now working in a barber shop in Atlanta.

These are just a few that I might mention, but they are types of conditions that you can find around generally.

Senator LENROOT. What did it cost last year to grow cotton, I mean in actual money outlay? I do not mean including interest upon value of farm, but the actual cash outlay.

Mr. AMOROUS. The Government made an estimate—and I do not know how they made it nor upon what it was based—that the cost was 37 cents a pound throughout the territory. But I know that a neighbor of mine by the name of Norton spent $4,000 in cash—and he had the money in bank—for fertilizer and labor alone. The great majority of farm hands in Georgia did not earn $1.25 a week. That is absolutely true. A great many of them were advanced $8 or $10 a week, but their share of the crop did not pay over $1.25 a week.

At Woodstock, Ga., a merchant who had not collected last year more than 10 per cent, is keeping up all the families around him that he can. In one case there are three grown-up young men and the father and mother. They own their own place, but it is mortgaged. They owe him on their purchases last year. But he is advancing them at the rate of $3 a month each, $15 for the entire family, out of his store, for everything they have to have—clothing or anything they need more than they raise themselves—for horseshoeing and anything they have to expend money for. So he is crediting them at the rate of $15 a month for the five of them.

In another case there is a family of a man and his wife and five children, and he is crediting them $50 for the entire season.

Gentlemen of the commission, those are merely types that we find here and there and everywhere.

And let us look at the picture on the other side. There is a dry-goods merchant in Atlanta who gave $107,000 of cash bonuses to his clerks after paying their salaries during the year. That was $107,000 more money than a million farmers earned net last year in Georgia.

I saw a letter addressed to Congressman Lee just now. It was too long for him to read and he handed it over to me. It was from a farmer, telling of his condition, and of the starvation conditions under which they are making their crops, and the story is that the merchants are going to take everything from them this year—even corn, potatoes, and all. This farmer asked Mr. Lee to see if he could not get a law passed so that they could not force a man to pay his 1920 debts and to put 4 per cent interest on the notes. They have taken a lien on everything he raises.

Gentlemen of the commission, everything these families raise this year must go to the merchant, the whole 100 per cent that they raise. And they already owe the merchant on last year's purchases.

Senator LENROOT. When the cotton farmers borrowed $200 a bale on cotton, what did they do with the money?

Mr. AMOROUS. I thought I mentioned that they sent it to Iowa for corn, to Minnesota for flour, to Detroit for automobiles, to Missouri for mules, and to New York, Boston, and Chicago for fertilizer. That is what they did with the money.

Representative SUMNERS. Your statement is not exact, is it, that they borrowed that money on the bales of cotton. You probably mean that they accumulated debts during the year which were the equivalent to $200 for each bale of cotton grown.

Mr. AMOROUS. Yes, sir; that is my statement. They had borrowed during the year $200 on each bale produced. And that is what the debt must be paid from, from the cotton produced.

Senator LENROOT. What was the cost of production of the $200-bale of cotton?

Mr. AMOROUS. A neighbor of mine who produced 16 bales of cotton was at an outlay of 50 cents a pound. The Government estimate was 37 cents per pound.

Senator LENROOT. How much was it for the bale?

Mr. AMOROUS. Well, call it 40 cents a pound and 500 pounds to the bale, and you have $200.

Senator LENROOT. You do not contend that 40 cents a pound is the cash outlay, do you?

Mr. AMOROUS. I do not know how the Government make up the outlay, but that is the statement. It is the most difficult thing I know of to keep an exact account of these matters. I have tried to keep books of farm work, and have found it a most difficult matter. You can not tell in advance what it is going to cost you; you can tell a year after a thing has been produced.

Now, gentlemen of the commission, if you will permit me I will proceed along this same line.

Senator LENROOT (presiding). Very well; you may continue your statement.

Mr. AMOROUS. The disorder in our economic life threatening the living of all our people is easily traceable to the loss of the buying power of the farmer. A financial writer in New York said "hard times" will be over when you bring down the price of labor and the price of all commodities in line and in balance with present prices of farm products. His mistake is that when you get all these things down to that cheap price the farmer will not have the dollar to buy the cheap things. That is the situation. But it has got to come from him before we will have any revival in business. I make the prediction that we will have no end to "hard times" until the farmer's buying power is restored.

I can trace the situation all the way through from the farmer to the retailer, and the retailer to the wholesaler, and the merchant and the banker. Everything—debt is being extended until next fall, under what is called the "frozen-credit" system. Some people say next fall everything will be all right. The reason why we say in the fall business will be better is because then we know the farmer will sell his crop, pay his debts, buy more things. But he did not do it last year, and he will not be able to do it this year. How can we hope for any revival under these circumstances? It is all "optimism." Optimism won't furnish us coal or food this winter.

Representative SUMNERS. You do not expect the Congress at this session to constitute cotton the basis for the issuance of currency, do you?

Mr. AMOROUS. No; but I have the suggestion here of how the Congress can help the farmer to help himself.

Representative SUMNERS. You are confronted by a serious situation, in fact a crisis, in Georgia?

Mr. AMOROUS. Yes, sir; and in the whole South.

Representative SUMNERS. As far as I am concerned I would be very much more interested at this particular time in having you address yourself to some practical remedy, practical from the standpoint of legislative possibility.

Senator HARRISON. Yes; give us your suggestion along that line, because we must go pretty soon.

Mr. AMOROUS. I thank you for your suggestion. There is one more point and then I will go to it. If the Congress should enable the farmer to get 40 cents a pound for his cotton, it would not increase the cost of a cotton-made dress, or a cotton-made shirt, or a cotton-made pair of socks. I have here the prices for cotton and for 2-40 yarn per pound from 1914 to 1919:

	Cotton per pound.	2-40 yarn per pound.		Cotton per pound.	2-40 yarn per pound.
1914	$0.0750	$0.38	1917	$0.3013	$0.90
1915	.1188	.50	1918	.3100	.95
1916	.1725	.85	1919	.4000	2.50

There is no relation whatever to the price the farmer received for his cotton; I mean there is no relation between what the farmer received for his cotton and what the consumer had to pay for his cotton-made goods.

Senator HARRISON. What was the lowest price you had there for yarn?

Mr. AMOROUS. Thirty-eight cents a pound.

Senator HARRISON. And what was the highest price?

Mr. AMOROUS. $2.50 a pound.

Senator HARRISON. And what was the lowest price paid for cotton?

Mr. AMOROUS. It was 7½ cents a pound in 1914 and 40 cents a pound in 1919. You can not use it relatively, by percentages, because it does not work that way.

Senator HARRISON. I see.

Mr. AMOROUS. I suggest, for instance, that the Federal land banks were organized for the purpose of enabling the farmer to make improvements——

Senator HARRISON (interposing). All these applications are being taken care of now, are they not?

Mr. AMOROUS. I understand no.

Senator HARRISON. Do you know of any people who want loans?

Mr. AMOROUS. Yes, sir; but not any great number of them. I understand that there were $250,000 applied for in one Congressman's district, and they could not get but $2,500 in all. I say you

would do no violence to the act if the Government would take over the mortgages, and, instead of waiting to sell the land bank bonds, issue against these land mortgages land bank notes of $5 or $10 each. How would it hurt? The carpenter will take them; the bricklayer will take them; the grocer and merchant will take them. They are simply like the Federal land bank bonds; you may have to retire them, but it is simply a $5 bond that has got to be sold.

Senator LENROOT. Would you make them legal tender?

Mr. AMOROUS. Yes; and make them worth on the basis of what is behind them.

Representative FUNK. When the farmer makes his loan at the Federal land bank, he gets his draft or some evidence of money, and then he deposits it in his bank, and he can draw it out in $5 bills.

Mr. AMOROUS. Yes.

Representative FUNK. I do not see any help then in the suggestion you have just made.

Mr. AMOROUS. Only this, they have no funds to loan now. They can't sell the bonds.

Senator LENROOT. What do you think would be the effect of that on the things the farmer has to buy? If you should do that, what would be the effect on the things the farmer has to buy?

Mr. AMOROUS. Senator, my theory is, as I said, that all money is just a medium of exchange.

Senator LENROOT. But the more money you have the more things will cost.

Mr. AMOROUS. Not necessarily.

Senator LENROOT. Suppose we have to-morrow $10,000,000,000 in $10 bills——

Mr. AMOROUS (interposing). Senator, as a matter of practical fact, would you not rather have a steak at a dollar, if you have the dollar to pay for it, than to have the steak worth 25 cents, and you not be able to get it?

Senator LENROOT. That is a different matter. If what you suggest were done, would it not increase the cost of the things the farmer has to buy?

Mr. AMOROUS. No, sir.

Senator LENROOT. You, yourself, just suggested it.

Mr. AMOROUS. No; I was illustrating that—just using it as a matter of exchange. What do you care what it costs——

Senator LENROOT (interposing). That is not the question. Suppose we issue to-morrow $10,000,000,000 in $5 and $10 bills, would not the price, in dollars, of everything that the farmer has to buy increase?

Mr. AMOROUS. I would not care, if I could improve living.

Senator LENROOT. That is not the question. Do you think it would? The question is not whether you care or not, but the question is. Do you think it would?

Mr. AMOROUS. No, sir; in the first place, you wouldn't do that.

Senator LENROOT. Never mind that. I asked you a question. Do you think it would?

Mr. AMOROUS. Oh, I don't know. The hardest word in the English language is "I don't know." I tell you, I don't know. But I claim it would not make any difference what the value in money itself

was; it is a matter of exchange in trade if you get what you want for it.

Representative SUMNERS. Your position is that if you can not get the regular money you would rather have the $5 note you speak of?

Mr. AMOROUS. Yes; I think that is the way to do it. What good is the Federal land bank to these people? They have only the right to borrow money; they have the security and need the houses and barns. Federal land-bank notes will get them the improvement and put labor to work.

Senator HARRISON (interposing). Theoretically you think the Federal land bank is all right?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. It is beautiful?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. But if you can not get the money to put into it——

Mr. AMOROUS (interposing). No.

Senator HARRISON. And right now they have a demand for money, and can not get the money?

Mr. AMOROUS. I understand they have applications for $500,000,000.

Senator HARRISON. They have applications for $500,000,000.

Mr. AMOROUS. That is what a Congressman told me.

Another suggestion I have: For the farmer to aid himself, and in fact, and never need to come back to Congress for any assistance, is to create an association of farmers of commodity-selling associations, after the California plan, provided they warehouse their products and issue insured warehouse receipts of integrity for their products.

You require them to go into an association to borrow money from the Federal land bank, and you can put the farmers into an association of this kind. I understand it is done in Denmark, and they have stabilized their whole country there; they have stabilized the farmers. Recollect, I claim you can not stabilize business in this country unless you stabilize the farmers.

Senator LENROOT. They can do that now.

Mr. AMOROUS. They have done it, I understand, to some extent, in Mississippi, and have organized in Texas and Oklahoma, and so on.

Senator LENROOT. You mean, by a voluntary act?

Mr. AMOROUS. Yes; but it can be assisted by the Government.

Senator LENROOT. In what way?

Mr. AMOROUS. You have a lot of demonstration agents in Georgia, for instance. If they were to canvass this matter with the farmers they would join quicker and get into these associations.

But you are obliged to stabilize the farmer before we can have a return to prosperity again.

I would do another thing for the Federal reserve bank system now. I would issue all money under the direction of this system, and I would pay back to the banks all the capital stock, and in that way the Government would own exclusively the Federal reserve bank system. It would be less harmful to the people for the Government to "profiteer" than for the banks to profiteer. It would lessen taxation that much each year. You can do that without doing any violence to the system and still continue the member banks as they are now until Congress should see fit to make other changes.

I claim, and lay it down as a proposition, that we will not get rid of having these depressions every three or four years as long as we have this money system, or these money systems, we have now. We will have to make a change in our money system before we can cure that.

Representative SUMNERS. Let me ask you: In 1914, when things closed down, did or did not the clearing house associations and banking associations throughout the South issue what they called "white currency" and relieve the situation?

Mr. AMOROUS. Yes; it was done. In clearing, however, they settled in sets between themselves on the clearing-house certificates if they did not have the money.

Now, our business in 1914 was about $100,000,000,000 clearings through the exchanges. Experience shows that it would take 5 per cent in cash to settle the differences. In 1919, it was at least twice as much, due to expansion and development, and it took $10,000,000,000 to clear; we did not have the money. Those are the things that lead me to believe it is what broke us down.

That Europe did not take our goods did not break us down; we export only about 7 per cent of our manufactured and agricultural products. It is true it is larger in some products, but it amounts to 7 per cent in all. Ninety-three per cent of what is produced in this country is consumed here at home. And nobody can tell me that if I can sell 93 per cent of my manufactured or agricultural goods I have got to go into bankruptcy because I have got to carry the other 7 per cent through to next season.

Representative SUMNERS. That is true as of certain commodities, but if prices of certain commodities of which a very large percentage goes into export breaks down does not that necessarily affect the whole fabric of our business? Take cotton, for instance.

Mr. AMOROUS. The United States mills did not take as much as they ordinarily do, and they will take less from now on. That is true, because there isn't anything left the producer to buy with; after the farmer sells his cotton at present prices he has not enough left to buy a cotton shirt. And conditions will get worse, and people will be out of employment, because they can not buy.

I heard of a city in our neighborhood of 6,000 families being fed by the city, and yet there is $6,000,000 in cash in one bank in that city.

The settlement of the Allies requires Germany to pay $60,000,000,000 in gold, when there is only $8,000,000,000 in gold in the whole world, and there isn't a single dollar of gold in the German Empire. They will have to dig iron, coal, potash, and other products and exchange it with the man or the country that has the gold. If they have to exchange 1 ton of iron for a gold dollar, they will do it in competition with the man in the country that gets $20 a ton. That settlement with Germany in that way will enslave the labor of the world for years to come. I am mighty glad to see we are not mixed up with any settlements in connection with it. It might pay us, if we could, to wipe off the $10,000,000,000 they owe us, because there isn't but $8,000,000,000 in the world, and they can never pay it in gold. It took us over 100 years to accumulate three billions of gold, and at that rate it will take Europe 300 years to accumulate $10,000,000,000.

Senator LENROOT. Do I understand you that the American people should continue to pay $500,000,000 interest on the European debt and also pay the principal?

Mr. AMOROUS. No; if it had been me, I would not have issued a single bond.

Senator LENROOT. No; but we have issued them.

Mr. AMOROUS. I know, and we sold $24,000,000,000 of bonds to the people, and the people did not have the $24,000,000,000 to pay for it, and we gave the money to the people to buy our bonds, and that is the way they got it to loan to us.

Representative SUMNERS. But we went in debt for all that money and issued our bonds. The European people will have to pay that sum or, if we forgive the debt to us, our people must pay it.

Mr. AMOROUS. All right; I am telling you, however, our condition. I am telling you the condition of the people.

Senator LENROOT. You think it would be better for the Government to pay that itself and cancel the debt to Europe?

Mr. AMOROUS. No; I am only quoting you and using the argument that has been stated that it is necessary for us to rehabilitate Europe before we can have prosperity in this country. I deny that. The statement is made that we have produced so much money, so many billions. It would have paid us to let them keep that ten billions. Theoretically, I would not mix up in that German situation; I would rather live isolated.

Senator LENROOT. Let me ask you, Do you think that era of extravagance and speculation that everybody got into could go on indefinitely?

Mr. AMOROUS. Senator, practically you had, as we all had, a full dinner pail with high prices. Now, with more gold in the country and lower prices we haven't got a full dinner pail.

Senator LENROOT. The people had more than a full dinner pail?

Mr. AMOROUS. I think, of course, a full dinner pail is better than what we now have.

Senator LENROOT. Do you think there was just a full dinner pail, and no extravagance on the part of our people generally?

Mr. AMOROUS. I don't see how that would have broke us down as to this point. If you get a good trade out of me, I am hurt individually, you see, but there isn't any reason why all the people should be penalized for the extravagance of the few. Everybody was not extravagant. I know of a man with a salary of $3,000, who kept an automobile and servants in his house; I know of another one nearby—in fact, in the same apartment, whose wife and children did all the work, and he kept no automobile, and yet he is out of a job to-day, and the man that had the automobile and servants is still drawing his $3,000—the other man is out of a job.

Senator LENROOT. Do you think a man that borrowed $200 a bale on cotton was not extravagant?

Mr. ARMOROUS. No. sir.

Senator LENROOT. You don't think he was?

Mr. AMOROUS. No, sir; they invested it all in the production of the crop; they invested $720 for two mules—

Senator LENROOT (interposing). But somebody got the $720 for the two mules?

Mr. AMOROUS. Yes; the man in Missouri got it.

Senator LENROOT. How about the man in Missouri, did he get more than his share?

Mr. AMOROUS. I say that too much money has been taken out of trade and industry. A man on a farm earned, or got, $1.25 for a week's work on the farm, and when he had to get a man to shingle his house on his farm it cost him $15.50 a day for that work; and that is taking too much toll out of industry.

Senator HARRISON. Let me get straight what you mean by isolation; do you think we could have ordinary prosperity in this country if we lived among ourselves, and would not sell anything to foreign countries at all, or have no trade relations with the foreign countries?

Mr. AMOROUS. Yes; if it is necessary to do it.

Senator HARRISON. How would you go about that; keep down our manufactured products, and sell nothing abroad, and raise only enough for our own people?

Mr. AMOROUS. No, Senator; you misunderstood me. I was referring to the statements that are broadcast that "only by rehabilitating Europe we will get our prosperity back." I say, I deny that. I quoted the other extreme to make that point.

Senator HARRISON. But to sell our surplus products, if we raise surplus products?

Mr. AMOROUS. Yes.

Senator HARRISON. And we are bound to sell our surplus manufactured goods, if we make surplus goods?

Mr. AMOROUS. Yes, sir.

Senator HARRISON. And we can not have prosperity unless we do that?

Mr. AMOROUS. Yes, you know that this country itself did not consume its normal amount of products this year.

Representative SUMNERS. If this country can live by itself, why can not the South live by itself? You have the coal and iron and agricultural products, and cotton, and everything like that.

Mr. AMOROUS. Our control of a system of commerce is done from Washington, by the Constitution, and we can not——

Representative SUMNERS (interposing). They do not force you to ship your stuff in interstate commerce.

Mr. AMOROUS. No; what I mean is we have to have a money system. They do not permit us to use our own money system; the Constitution forbids it, and Congress will not allow us to have our own money system. I was only referring to the statement that "we have to rehabilitate Europe before we can have prosperity in this country." I say it is more important to rehabilitate the United States first than it is for the United States to rehabilitate Europe.

Representative SUMNERS. How are you going to rehabilitate the South, if their markets, the markets of Europe are close to 50 or 60 per cent of the chief product of the South?

Mr. AMOROUS. That is not literally true.

Representative SUMNERS. I beg pardon; it is literally true.

Mr. AMOROUS. They have taken a portion of that 50 per cent, and it can be furnished to them.

Representative SUMNERS. You assume that rehabilitation of Europe is something that can be dispensed with, and still our country be prosperous. I want to know how we can be prosperous, if the part of the world that takes 50 or 60 per cent of our chief product ceases to purchase.

Mr. AMOROUS. It is a merchandising proposition. If you give me sufficient capital to carry my stock I can dispose of that anywhere, if I can carry it long enough, and give sufficient credit.

Representative SUMNERS. You have cotton in Georgia that you can not move. What good does borrowed money on unsalable goods do to a man who can not move them?

Mr. AMOROUS. It wouldn't do him any good.

Representative SUMNERS. That is what I thought.

Mr. AMOROUS. And the merchants down there, the hardware men, and the other merchants, are not buying any stuff now. If they need anything they buy each other's stocks. The drummers that came down there, with their axes, and the U. S. M. cartridges, and so on, from Bridgeport, Conn., went back without any orders. The drummers came down there, but could not sell anything; they had to go back without orders.

Representative SUMNERS. Our drummers are coming back in the same way from Europe: they are in the same fix.

Mr. AMOROUS. Yes; I am not big enough, and I have not had experience enough to tell you what you can do with the whole situation. I just presumed to be able to say what could be done with the cotton farmer to rehabilitate him and restore his buying power. The means of doing that is up to you gentlemen.

Representative SUMNERS. In doing that, it seems to me you should not overlook the importance of Europe as a buyer.

Mr. AMOROUS. Not necessarily. But in putting your own house in order you do not have to disorder your neighbor's house. In fact, it is not the proper thing to do.

Senator LENROOT. What you want to do is to have the American people, at their expense, rehabilitate the cotton farmer?

Mr. AMOROUS. No, sir; the proposition I had in October, Senator, is not the proposition now. It would not cost the American people a dollar to do it, either. It does not cost the consumer anything; it does not make them pay higher prices for cotton-made goods.

Senator LENROOT. The Government is to buy that cotton at 40 cents a pound and sell it this fall at 20 cents; if that should be done, who pays the bill?

Mr. AMOROUS. The proposition I argued in October—and I am not going to delay you with any argument on that now, although I think it is sound—would have saved this country from starvation.

Representative SUMNERS. But here comes the man who has the wheat to sell, and he says he has the staff of life; a man can patch his shirt, but he has to have something to eat.

Mr. AMOROUS. Give it to them also.

Senator LENROOT. In other words, you want the Government to issue promises to pay——

Mr. AMOROUS (interposing). I think what you want to do to help the whole country is to give the Federal land bank proposition some money.

Representative SUMNERS. You are getting somewhere now.

Mr. AMOROUS. And also put the wheat farmer and the cotton farmer and all into a cooperative selling proposition. They are the basis of living for all in this country, and until you do that we will have no return to prosperity in this country.

I thank you very much, gentlemen. I think I have said everything I can say on this subject.

Senator LENROOT. If it be true that this great drop in prices is world-wide, would you still say it was due to our financial system?

Mr. AMOROUS. No, sir; I think those things are local to each nation so far as that is concerned. I have a copy of Mr. Harding's book on the functions and premises of the Federal reserve system. He gave it to me last October. He makes the statement that the farmer should be aided and stimulated to the full measure of his harvest. He is, to my mind, the commanding figure in finances in this country to-day—in the world—because he is the representative of the United States, being the head of the Federal reserve system, and his word laid down for the financial improvement of the people, should command the attention of Congress. He does not use the word "money," but if money is necessary, he says, "Aid and stimulate the farmer." He says that should be done, "so that agriculture shall not languish." And full production is of more value to the people as a whole than lesser production. They told the people to cut production down 5 per cent in order to get higher prices. It has been cut, but the price is not coming up with the restricted production. But they did not do it for that purpose. They did it because they could not supply the men to make the crop. One man by the name of Bean had six men running plows last year, and this year he is running a plow himself, and he has sold off his other mules for what he could get, and he is plowing what he can himself, but has nobody working for him this year.

Senator LENROOT. Is that not going to tend to increase prices to the farmers in the end?

Mr. AMOROUS. The price does not make so much difference. In 1914 he got 5 cents for cotton, but that price paid all the farmer's debts.

Representative SUMNERS. You did not get that all the year of 1914.

Mr. AMOROUS. It was 7½ in December. Mr. Candler, you know when cotton was 5 cents offered to loan 6 cents a pound on 1,000,000 bales and then the prices went up.

Representative SUMNERS. And then they organized a sort of a cotton poll about that time also. But the truth was there was a sort of a buyer's strike at that time, and you could not sell it. But in January it went up to 26 cents.

Mr. AMOROUS. Yes, sir. And then the exchanges were closed, and then when they opened up it broke 2 cents a pound.

Representative SUMNERS. When was it you went to these banks in Atlanta and tried to get some money?

Mr. AMOROUS. In December.

Representative SUMNERS. 1920?

Mr. AMOROUS. Yes; last December.

Representative SUMNERS. It was 7 per cent then, was it?

Mr. AMOROUS. Seven per cent the Federal reserve bank was charging member banks; yes, sir.

Representative SUMNERS. November 1, 1920, they took off their progressive rate, so there was no progressive rate when you went there to that bank?

Mr. AMOROUS. I saw the statement made here by Mr. Williams that there was a refund back also. I saw it in the papers.

Representative SUMNERS. Yes.

Mr. AMOROUS. That is what the President told me, that they had only 1 per cent profit.

Senator LENROOT. In other words, your bank could not do business on a profit of 1 per cent?

Mr. AMOROUS. It could not; it would stretch their rediscount ability too much to make it, and they had to take care of their regular customers.

I claim that a bank is a public-service corporation, just like a railroad, and if the Government is furnishing them the money to make a profit off the people, I think they should function always uniformly. We require the railroads to do it, and the Government does not support the railroads—they are now, under the stress of circumstances, but we will have no return on tonnage until we get normal production on the farms.

The CHAIRMAN. Do you think the Federal reserve bank rates should be such as to enable the banks to make a profit on the money they borrow from the Federal reserve banks?

Mr. AMOROUS. Well, if necessity alone makes demand for money, no matter what the rate is, the loans will expand if necessity exists, and I think that is the main movement to most people; the necessity will make the borrow.

The CHAIRMAN. I supposed the principle was that the rate at the Federal reserve bank would be slightly above the market rate; if it was not so, you would have constant expansion of loans merely for the purpose of making a profit, whether the banks or industry, or the condition of industry, justified an expansion or not.

Mr. AMOROUS. I have had an experience on that, and the most money I ever made was when I borrowed money at 18¾ per cent, and I made a profit on that. I lost my investment when I borrowed money at 5 per cent. The rate is not what makes it profitable.

Representative SUMNERS. Are you sure of that?

Mr. AMOROUS. No, sir; not altogether.

Representative SUMNERS. You were probably engaged in some highly speculative business when you borrowed money at that rate?

Mr. AMOROUS. I bought a home for $2,500. And the rate I paid altogether amounted to 18¾ per cent. I borrowed it through a building and loan association. I afterwards sold it for more than $50,000.

Representative SUMNERS. It was speculation.

Mr. AMOROUS. It was a home, and I lived on it 29 years. I bought it for a home. The matter of the rate is not so important.

Representative SUMNERS. Your position is not, however, that the people should pay that high rate?

Mr. AMOROUS. The injury to the people is the profiteers. There was a merchant in Atlanta who bought sugar for 12 cents and sold it for 16 cents, and he was condemned to prison for two years for "profiteering," for making too high a percentage. But these banks made from 100 to 200 per cent; did they profiteer?

The CHAIRMAN. Which banks are you talking about; the Federa reserve bank?

Mr. AMOROUS. Yes, sir.

The CHAIRMAN. If they had made less profits on the amoun which they loaned to the member banks, and the member ban loaned to the people who wanted it, the credit would have been ve much more restricted than it was.

Mr. AMOROUS. The injury I see about that is the great amou they have piled up in that bank, taking it from circulation. Th is the injury to the people. They injure the people in the gr amount.

The CHAIRMAN. They do not take it from circulation, and th issue Federal reserve notes in relation to the increase of loans a discounts.

Mr. AMOROUS. There was $17,000,000,000 out one year in loa and discounts in the Federal reserve member banks.

The CHAIRMAN. In member banks?

Mr. AMOROUS. Yes, sir.

The CHAIRMAN. Do you think Federal reserve currency ought keep pace with their loans and discounts and be of the same volum

Mr. AMOROUS. Yes; I think when a farmer grows a bushel corn or a bale of cotton that he creates a debt against the peo and that money should be created to enable the exchange of h products with other people, and the Government itself maintai the right to create money. I think they should create the mon to do the business of this country, and it should be based on th quantity of products.

The CHAIRMAN. It is.

Mr. AMOROUS. No, sir; it is based on the three billions of gol we have. That is the joker in the Federal reserve system. It ca expand ten or twelve times beyond the amount of gold we hav It is a good system otherwise; otherwise it is fine. I think we oug to continue it, but we ought to withdraw the gold limit.

The CHAIRMAN. What would you make the basis of currency then

Mr. AMOROUS. Products. If we need an elastic currency to ex pand, we need it when the commerce of the country needs it. W need to issue it in quantity up to the value of products.

The CHAIRMAN. Well, if the business of the country is such tha the normal expansion of the banks is not sufficient, they borrow from the Federal reserve banks, and that rediscounted paper becomes th basis of Federal reserve notes, so that Federal reserve notes do expand in direct relation to the business of the country.

Mr. AMOROUS. But it is based on our gold; it is limited by th amount of gold we have. Mr. Anderson, we can go a certain limit or a certain distance, in having gold as the limit, but we have go to get additional gold if we keep up the expansion and developmen of industry equal to that we had in 1919. Then the 40-per-cen clause cuts down the amount in circulation, and our busines ha grown to such an extent that it went faster than the production o gold. That is what broke us down, in my opinion. Now, I coul not go into that, because I did not study out a financial system fo the Government, so I am unable to answer any questions on that I can tell you the effect of our present system, but what the effect o

a changed system would be. I don't know. But we do have to have an elastic currency when needed by commerce, as was announced when that was adopted, but when you limit it to gold, you are limiting the entire activity of industry to quantity of gold.

Representative SUMNERS. Is not your difficulty due more to the lack of facility, more the difficulty of getting money to the farmer who has a good basis for a loan, than it is due to the difficulty of a lack of circulating medium?

Mr. AMOROUS. I claim that practical business shows in commerce that money is a boat, a railroad train, and a warehouse.

Representative SUMNERS. Yes.

Mr. AMOROUS. It is the life of commerce; it is the lifeblood of commerce. You have got to have that if you are going to do business.

Representative SUMNERS. But you must have a track on which to run your railroad or a stream in which to float your boat?

Mr. AMOROUS. Yes; but if you withdraw all your trains from your road——

Representative SUMNERS (interposing). What has been withdrawn?

Mr. AMOROUS. In the Federal reserve system you have withdrawn and hoarded all the real money we have got.

Representative SUMNERS. You have got the trains then of the Federal reserve system.

Mr. AMOROUS. You have taken the trains off the Southern Railroad——

Representative SUMNERS (interposing). When you went to Atlanta you found a man who had a good basis for credit?

Mr. AMOROUS. Yes, sir.

Representative SUMNERS. But you did not have an avenue through which the man could get to the money; though the money was there?

Mr. AMOROUS. I wrote a little skit on the money, which I will read to you, if you would like to have it. [Reading:]

Pursuit of living and happiness is a duty imposed on us by our Creator.

A living is necessary to maintain life.

Happiness is necessary for us to desire to live.

Labor gives us a living.

The absence of a policeman in the Garden of Eden made labor a necessity to live.

Police means order.

Order is necessary for the happiness of the individual.

Order is government.

Government is to protect and aid the individual in the pursuit of orderly happiness.

People lived, labored, and thrived before the days of money.

They bartered and they traded with the baker, the butcher, and the brewer.

They increased their kind and they spread everywhere and into distant lands. And yet, exchanging, bartering and trading, they used the elephant and the camel, and their kind, spread everywhere, should eat and be happy.

Then it came a time that in the exchange, it was too burdensome for the camel and the elephant to render to each his due.

Another vehicle or beast of burden was necessary to life of all kinds. Then came the vehicle of exchange money.

Ages pass and we are to-day in a land of plenty, many have a surplus, others of their kind need this surplus in their living. They that need are distant—equal distribution to them that need requires only a vehicle to carry to them that they may live.

Disorder reigns in all the lands.

The government functions, provides the vehicle, money, all that need are supplied and order is restored among all the people.

> The disorder in cotton threatens the living of many people; its equal distribution to those in need is retarded.
>
> The kind in the distance who need have not the price to bring to them.
>
> Hence disorder is spread over all the land of plenty.
>
> The government, the power of order, must act and provide the vehicle of equal distribution, money, that our kind that need may be supplied, and happiness reign in all the land.

That is what I think of money and its proper use.

The CHAIRMAN. They have created money in France and Germany without any relation whatever to business and business requirements; they have done it in Austria, and they have done it in Hungary; do you think they are any better off than we are?

Mr. AMOROUS. I don't know. My opinion is Germany will control the commerce of the world without the use of the gold dollar in their currency. That is my opinion.

The CHAIRMAN. I will venture to say that when they arrive at that point they will have a currency based upon gold.

Mr. AMOROUS. Mr. Anderson, if Europe was to pay us ten billions for instance, which is owing us, they would have no gold. There is only eight billion in the world. All Europe will abandon the use of gold for currency. That is my prediction as a prophet. Why should they continue? If we were to put all the gold on a steamer and send it to England and it was sunk in the ocean, would we starve? I say not. I say we have a wise Congress that knows what the Constitution says they shall do; they would create money. I can go to the bank in Atlanta and give my note for $1,000, and they will give me $1,000 for it. If I take a Government bond for a thousand dollars there, they will give me $800 for it.

You could just as well put 10 grains of gold in a dollar by fiat of the Government as you can put in 25.8 grains by fiat of the Government.

It is the thing you use to trade with as to what you can exchange it for. You go into one store down here, and they charge you $10 for a hat, and Congressman Lee will go into another store and get one for $5. Your dollar was worth 50 cents; the unit of value was the hat; your dollar is worth what a bushel of wheat is—what you can do with it and how much you can get of the kind of thing you want in exchange for it. The only use for it is for an exchange of products. It is only used as a medium. You get $10,000 as a Member of Congress; your redeemer is not Congress; your redeemer is not the Treasury. You go to a hotel and pay $200 a month for food and lodging; Congressman Lee takes his money and goes to another place, and for the same month he pays $100. You both have your money, but yours was a 50-cent dollar. I was only using that as a simile of the way we do business. It is not what we really have; there is no intrinsic value in the money; values are relative in exchange. We issue billions of dollars of money—the Government does—on less than the amount of gold we have. You have twenty-four billions in bonds to be paid in gold, and you have not the gold. You never had it, and the people never had the money when they took those bonds. You printed it and gave it to them.

The natural law of supply and demand regulating prices has been destroyed by legislation in our copyright and patent laws, protective tariff laws, interstate commerce law, Federal reserve bank law, prohibition law, Sherman antitrust law, and others.

I want to thank you, gentlemen, for your indulgence and kindness in listening to my individual views about this matter just as it occurred to me in my daily occupation in life. I appreciate very much the kindness and courtesy.

The CHAIRMAN. We are very much obliged to you. The commission will now take a recess until 2 o'clock this afternoon.

(Whereupon, at 12 o'clock and 20 minutes p. m., the commission stood on recess until 2 o'clock in the afternoon of the same day.)

AFTER RECESS.

The commission resumed its session at 2 o'clock p. m., pursuant to the taking of recess.

The CHAIRMAN. Mr. Dumay, we have not many members of the commission here, but if you do not mind speaking for the record we shall be glad to hear you. Please state your full name and whom you represent.

STATEMENT OF MR. ALONZO M. DUMAY, PRESIDENT FIRST NATIONAL BANK, WASHINGTON, N. C., REPRESENTING NORTH CAROLINA BANKERS' ASSOCIATION.

Mr. DUMAY. My name is Alonzo M. Dumay. I presume that I am here representing the North Carolina Bankers' Association. I am president of that association, and also president of the First National Bank of Washington, N. C.

I regret very much, Mr. Chairman and gentlemen, that I could not have a stronger representation here from the North Carolina Bankers' Association. I intended to, but I did not have the time to get them together. There were one or two that would have come, but unforseen circumstances came up which prevented their coming. The two men whom I wanted to represent the North Carolina Bankers' Association could perhaps present this matter to you in a better shape than I can. I really do not know what I was invited here to testify about. I had some correspondence with Congressman Ward in regard to the interest rates charged by the Federal reserve bank, hoping that there might be something done to have that rate reduced, believing that that would be a great benefit to business along all lines.

I do not know whether this is a matter I should discuss as a banker, because as I understand the national bank law it was not made for the banks; it was made for the people. It was not made for the purpose of permitting the member banks to make a profit out of the Federal reserve bank, and neither was it made for the Federal reserve bank to be a profit-making institution. Therefore it seems to me that the matter ought to be discussed from the business man's point of view instead of the banker's. I will endeavor to give you my ideas as a business man as to why the reduction of the interest rate of the Federal reserve bank would be a benefit to business, stabilize business, and give people confidence.

Of course, I understand that conditions vary in the several Federal reserve districts. The district in which I am, the fifth, is the only one I know about; I do not know the conditions in the other districts.

I believe that if you will investigate you will find that as soon as the Federal reserve bank raised its interest rate the price of Liberty bonds decreased. I think that can be substantiated. That in itself meant a loss of millions of dollars to the people of the country. I believe that if they had maintained their rate that they started on of 4 per cent, based on Government securities, it would in some measure have kept the bonds nearer par.

The CHAIRMAN. Is it not a fact that the bonds actually hit the bottom during the period when the 4 per cent rate was in effect?

Mr. DUMAY. Yes, sir; I think that is so.

The CHAIRMAN. Then the mere fact that the discount rate on bank paper with Government bonds as collateral was low does not altogether account for their failure to maintain their value?

Mr. DUMAY. It was this way, sir. A great many of those bonds were held by people who were compelled to borrow on them. When we had a 4 per cent rate, based on the 4 per cent bond, you might say as preferential security, a man could carry those bonds without any loss, but as soon as that rate was raised he went to a loss at once.

Representative SUMNERS. The chairman's statement was that the shrinkage in the bonds preceded the increase of the discount rate. Is that a fact?

Mr. DUMAY. No, sir; I do not think so.

Representative SUMNERS. You misunderstood the chairman's statement then.

Mr. DUMAY. Perhaps I misunderstood the chairman's statement but I think I can substantiate that, sir. I have here the discount rates of the Federal reserve bank, and also a partial statement of the prices of bonds; I did not get the full list. The bonds in January 1920, showed a very good price.

Representative SUMNERS. What was the price?

Mr. DUMAY. Take the first 4's, for instance, 94; second 4's, [illegible] third 4's, 95; fourth 4's, 93; and Libertys were 99.84.

Now, the Federal reserve bank put into effect on January 5 a discount rate of 4.75 per cent based on Liberty bonds or Victory notes.

Representative SUMNERS. What was the rate just before that time

Mr. DUMAY. The discount rate was 4.50 per cent. That was on December 15. On April 25, 1919, the rate was 4.25 per cent. In April of 1920 Liberty bonds were at a lower rate than they were in January.

Representative SUMNERS. Do you mean a lower rate or a lower price?

Mr. DUMAY. A lower price. On April 20 the Federal reserve bank put the rate up to 5½ per cent on Liberty bonds. It shows, to my mind, that it was the cause of the reduction in the price of Liberty bonds.

The CHAIRMAN. Have you made a comparison of the prices of Liberty bonds during this period with other things which would indicate——

Mr. DUMAY. They did recede in price.

The CHAIRMAN. And prices in general receded during the same period?

Mr. DUMAY. Yes, sir.

The CHAIRMAN. Is it not just possible that the recession in price of Liberty bonds was a reflect of general price conditions, including

the price of industrial stocks, rather than the result of the increase in the discount rate?

Mr. DUMAY. The position the country bank was placed in, in North Carolina, when they put the rate of discount up to 6 per cent on all classes of securities was this: It almost prohibited a bank in the State of North Carolina from making any loans at all, because they could not come out even on it.

Representative SUMNERS. Making any loans on what? On anything?

Mr. DUMAY. On anything.

Representative SUMNERS. You mean when they increased the rate on the Liberty bonds they also put the rate up to 6 per cent—the general rediscount rate?

Mr. DUMAY. Yes; they put their rate up; on June 1, 1920, they put their rate up to 6 per cent.

Representative SUMNERS. From what?

Mr. DUMAY. From 5½. That rate is maintained to-day; it has never been reduced since that time.

Representative SUMNERS. Well, how do you people operate your banks down there, and how do you avail yourselves of the rediscount privileges under those conditions?

Mr. DUMAY. Why, at the present time there is no bank that would borrow money from the Federal reserve bank at the 6 per cent rate to reloan, because if they did, they would have to charge usury. Therefore, we are almost prohibited from borrowing for loaning purposes. The banks are in this position: The first of the year 1920 the banks had plenty of money on hand. They extended credits liberally to their customers. The slump of prices of farm products, which is our mainstay in our section, was such that hardly anybody was able to pay their bills at all. Our deposits did not increase, and we had these loans on hand that we could not carry very well without calling on the Federal reserve bank for renewals constantly. Therefore, the banks were not making these loans from a matter of choice; it was a matter of necessity. It did not make much difference what the Federal reserve bank charged, they had to make the loans to protect themselves. They could not collect their notes that they had out, and it was a matter of sink or swim. It would not have made any difference if the Federal reserve bank had charged them 15 per cent; they would have had to pay it just the same.

The CHAIRMAN. Well, if the rate had been 4 per cent instead of 5½ per cent, you would have loaned more money, would you not?

Mr. DUMAY. Well, I do not know that a prudent bank would have done so under those conditions, because they were loaded up to the guards anyhow.

Representative SUMNERS. When the rate was increased to 6 per cent and the renewal time came, was the effect of that increase to cause the banks to call their loans?

Mr. DUMAY. Yes, sir.

Representative SUMNERS. It would seem to me that would be the inevitable effect.

The CHAIRMAN. But how do you reconcile that statement with the fact that the loans of the Federal reserve bank nevertheless continued to increase and did increase until along in December, 1920?

Mr. DUMAY. I do not quite catch your question.

The CHAIRMAN. How do you reconcile that statement that the effect of the increase in the discount rate was to compel the bankers to call their loans with the fact that the loans and discounts of the banks during the period of the last six months of 1920 continued to increase notwithstanding the higher discount rate?

Mr. DUMAY. A great many banks had to do that to protect themselves on their deposits. As their deposits decreased their reserve funds became depleted, and they had no other place to go to except the Federal reserve bank. That is where the Federal reserve bank saved the day, by being in a position to loan the bankers money to take care of their decrease in deposits. Pretty nearly all the banks in our section lost deposits heavily, and could not collect their loans, and because of that we were compelled to go to the Federal reserve bank.

The CHAIRMAN. I know; but I was not speaking about the loans of the Federal reserve bank, but the loans and discounts of the member banks increased during this same period.

Mr. DUMAY. That was caused by the decrease in deposits, largely. There were very few banks, as I understand it, who made additional loans beyond what they had on hand at that time. They merely rediscounted paper they had on hand at that time.

The CHAIRMAN. But I say, the loans of member banks to their customers during this period, when you say the effect of the high discount rate was to cause the member banks to call their loans, were actually increasing instead of decreasing.

Mr. DUMAY. The banks did try to call them, but they were unsuccessful in doing so. We reduced our loans very little. We made the effort to do so, but we failed. And then, in the face of decreasing deposits, we were often compelled to go to the Federal reserve banks to get help to take care of the decreased deposits.

Representative WARD. If I may be allowed to interrogate the witness: Your State rate is 6 per cent, is it not?

Mr. DUMAY. Yes.

Representative WARD. And the banks charge you 6 per cent?

Mr. DUMAY. Yes, sir.

Representative WARD. You then, of course, can not lend any money which you borrow as a member bank from the Federal reserve bank without violating the State law, can you?

Mr. DUMAY. No, sir.

Representative WARD. You can not make anything on it?

Mr. DUMAY. No, sir.

Representative WARD. When the rate was 4¼ per cent, you were left a margin of 1¾ cents?

Mr. DUMAY. Yes, sir.

Representative SUMNERS. Did they have that rate on general commercial discounts?

Mr. DUMAY. They did have it previous to this depression. They loaned money there in November, 1917, at 3½ per cent.

Representative SUMNERS. That was the general rediscount rate?

Mr. DUMAY. Yes, sir.

Representative SUMNERS. Of course, people must at times borrow money, and the banks should have some profit, not only for the over-

head but to take care of the element of risk incident to the fact that they borrow the money and guarantee the payment and loan it out again. Have you got a system down there of brokerage charges for getting loans which indirectly permits a higher interest rate but does not violate the letter of the law? How do you get around it?

Mr. DUMAY. There is no way that we can get around the usury law. Our State courts have decided that any charge made is usury.

Representative SUMNERS. Whether you call it a commission or what not?

Mr. DUMAY. You can not call it anything.

The CHAIRMAN. Is the maximum rate in your State 6 per cent?

Mr. DUMAY. That is it. There is no way that a bank can get around the usury law, that I know of. You can not call it brokerage, you can not call it service, you can not call it anything. The Supreme Court has decided it is usury if you charge a man more than 6 per cent.

Representative SUMNERS. So the effect of this situation has been practically to shut you people out from the facilities of the Federal reserve system?

Mr. DUMAY. Absolutely. There is not a prudent banker in the State of North Carolina that would borrow a dollar from the Federal reserve bank at 6 per cent now if he did not have to. But we have to do it; our necessities compel us to do it.

Representative SUMNERS. To take care of outstanding loans and existing conditions?

Mr. DUMAY. That is it. In our little bank we only have $100,000 capital and $100,000 surplus and undivided profits. We are carrying with the Federal reserve bank to-day $300,000, and we have not been able to get it down since last March; we can not collect our loans. That is the position we are in, and that is the position of 90 per cent of the banks in that community to-day. We can not possibly make a dollar; we are losing on the business. During the last six months we did not make anything like the profit that we should have made if things were easy. The tighter money gets the less money we make, under existing circumstances.

Representative WARD. What have you to say as to the justification, from its standpoint, of the Federal reserve bank making this charge? You are not a Federal reserve bank man, I know, but have you any suggestion upon the question of whether they are bound to charge 6 per cent and ought to?

Mr. DUMAY. They absolutely should not charge 6 per cent. It was not the intention of the law, as we all understand it, for the Federal reserve bank to be a money-making institution. They have been a great money-making institution; their balance sheet will show that they are the greatest money-making institution, based upon legitimate business, that there is in the United States to-day.

Representative SUMNERS. Of course that is already in the record. But they claim that the system ought to charge a little more for rediscount privileges than is charged ordinarily by rediscount banks. In other words, they get all the rediscount business, and become a bank of rediscount.

Mr. DUMAY. Take, for instance, the placing of the fourth Liberty loan, which has nothing to do with this——

Representative SUMNERS Let us stick to this proposition, without discussing what anybody said about banks placing loans. This is, I think, one of the most vital things connected with this whole investigation.

Mr. DUMAY. I fully agree with you on that.

The CHAIRMAN. Now, let us get to why you think the Federal reserve bank is not justified in charging the rate of 6 per cent.

Representative SUMNERS. What have you to say on that point?

Mr. DUMAY. I do not think they are justified in doing it.

The CHAIRMAN. Why not?

Mr. DUMAY. Because it makes money too hard for the people to get. That is the reason. A bank is not going to go out and borrow money at 6 per cent and loan it at 6 per cent.

The CHAIRMAN. Well, if you make a rate of 4 per cent, for instance, on paper secured by Government obligations, naturally the profit in borrowing it at that rate and loaning it at a greater rate would induce an expansion of your loan account with the member banks. Now, that can not go on forever, can it?

Mr. DUMAY. Well, there are times when banks should not borrow any money at all. There are times of the year when we have plenty of money and have money to loan without borrowing at all. There is hardly any prudent banker will go to the Federal reserve bank to borrow money to reloan or go to anybody else.

The CHAIRMAN. This was the situation when this rediscount rate was raised. Banks all over the country were extending their loans; many of them were becoming very, very much extended. Prices were going up. There was a great spirit of speculation and extravagance all over the country. Some time or other that expansion or extension had to stop?

Mr. DUMAY. Certainly.

The CHAIRMAN. If you do not stop it by increasing the rediscount rate, how would you stop it?

Mr. DUMAY. That is a hard question to answer. This high rate charged by the Federal reserve bank in our district did not take effect until very shortly before prices of commodities decreased.

The CHAIRMAN. They began to raise the rates in December, 1919, didn't they? They raised them slightly in December, 1919, raised them again in April, and then again in the latter part of May, 1920?

Mr. DUMAY. On December 15, 1919, the rate, based on Government securities, was $4\frac{1}{2}$ per cent. On member banks' collateral notes and customers' notes secured by War Finance Corporation bonds it was $5\frac{3}{4}$ per cent. I do not know why that difference was made. Bank collateral notes secured by eligible paper, $4\frac{3}{4}$ per cent. That was December 15, 1919.

January 5, 1920, the same rate applied—$4\frac{3}{4}$ per cent.

January 23, 1920, there was another rate sheet came out: Eligible paper, 6 per cent. That was when they put it up; they put it up from $4\frac{3}{4}$ per cent to 6 per cent.

The CHAIRMAN. That was on member banks' collateral notes?

Mr. DUMAY. On member banks' collateral notes secured by eligible paper. Secured by Liberty bonds or Victory bond notes, $5\frac{1}{2}$ per cent.

The CHAIRMAN. That was in January, 1920?

Mr. DUMAY. January 23, 1920, was the date.

The CHAIRMAN. That was considerably previous to the time prices began to drop?

Mr. DUMAY. Our prices began to drop on agricultural products in the latter part of August, when we opened our tobacco market. That was when we got the first blow.

The CHAIRMAN. August, 1919?

Mr. DUMAY. 1920.

The CHAIRMAN. If the interest rates had stayed at the low point, at the point they were in 1919, would the banks have gone on extending further loans, becoming more and more extended, and if the price drop had come just the same, as the result of a falling off of consumption and a falling off of exports, would not the result have been much worse than it was?

Mr. DUMAY. I do not think it would, sir, because the banks were borrowing in the latter part of last year and the first part of this year from necessity. They were not making any new loans. None of the banks down in our section of the country made any new loans during that period. If they borrowed more money than they had during the middle of 1920, they did it to protect themselves, not to loan to the customers. They just simply used the paper that they had already loaned on.

The CHAIRMAN. I am trying to get at the theory of the proposition. You make the general statement that the policy of adopting a discount rate of 6 per cent is wrong. Now, then, the only way I can find out whether it is wrong or not is to try to find out what would have happened if it had not been done.

Mr. DUMAY. That we do not know.

The CHAIRMAN. Maybe we can make a pretty good guess. Generally speaking, this is true, is it not, that if you have a low rediscount rate the tendency on the part of the member banks would be to rediscount paper and borrow for profit?

Mr. DUMAY. Yes, sir; under ordinary circumstances that would be so. But it would not have been so during, I might say, the last six months.

The CHAIRMAN. The last six months of 1920?

Mr. DUMAY. Yes; and the first six months of 1921. I do not believe that any prudent banker would voluntarily have increased his loans.

The CHAIRMAN. Then, in your judgment, the situation would have been in that case that loans and discounts would have fallen off just as they did anyhow, and prices would have fallen off just as they did anyhow, but the rate of interest which the member banks would have had to pay on rediscounting paper would have remained at a low point?

Mr. DUMAY. I think so.

Representative SUMNERS. It seems to me that in considering this whole proposition there are two phases. One is whether or not the increase of the rediscount rate was justified at the time it was imposed. Of course, that is a matter of history, and involves simply the proposition of whether or not it is to be criticized. The more important thing about the whole matter, it seems to me, however, is that under the existing conditions of the country, having stopped this inflation, if the Federal reserve bank system ought not by the reduc-

tion of the rediscount rate to enable these member banks to begin to function to take care of the pressing necessities of the people.

The CHAIRMAN. Mr. Dumay say they could not have taken care of them any more, because even if the rate of discount had been low they would not have extended their loans and discounts. But, of course, they could not take care of the people who wanted loans and did not have them unless they loaned more money.

Representative SUMNERS. The chances are, it seems to me, that, perhaps, the community loan would not have great increased, provided the banks had made some new loans. For instance, if a bank had loaned some money on good securities, would it not have enabled the farmer to pay his debts, to settle his doctor bill, and the doctor to settle up with the bank, and so on? And the total of the community's outstanding debts might not have been increased, even if the banks had not been paralyzed by this rate. I am not sure about that.

Mr. DUMAY. That is the idea I have of it, sir, exactly. I believe that if the Federal reserve bank had reduced its rediscount rate it would have given the people confidence as much as anything else and started the wheels of business moving around. If a man comes into your bank and you tell him he can not get any money, because you are loaned up to the limit and because money is costing so much you can not afford to lend it to him, it keeps many a man from paying his debts. I have known that to occur in many cases where a fellow had the money to pay his debts and would not do it because he did not know what was going to happen.

The CHAIRMAN. Let us analyze that. Apparently farm prices began to fall before wholesale prices and retail prices after wholesale prices. The principal thing that the farmer complained about was not only that his prices were being brought down but that retail prices did not come down in proportion. Now, if you had reduced the rediscount rate in June, 1920, for instance, and as a result of that you had brought about some revival of business, would not the effect have been to arrest the downward movement of wholesale and retail prices, and thus to retard the coming together of these prices upon a reasonable basis of margin?

Mr. DUMAY. It would not have done so unless there had been an appreciable amount of loans collected or banks' deposits increased, because I am sure that no prudent banker would make additional loans under existing circumstances and could not afford to have done it.

Representative SUMNERS. Assuming that it would have had some effect in retarding the decrease in wholesale and retail prices, if at the same time it would not have created so low a level for agricultural commodities, which they would have had to go down to meet, it would seem to me we would have had, perhaps, a more desirable situation, in view of the existing debts in this country, national and private, than if we had put all debts to an extraordinarily low level.

Mr. DUMAY. It is going to operate this way, if that rate continues. It is going to operate in a way to keep the bankers from extending credit.

The CHAIRMAN. Why?

Mr. DUMAY. Because they can not break even on the proposition; they will lose money every time. You must have some margin of

profit if you take care of your risk and your overhead. You can not borrow money at 6 per cent and loan it at 6 per cent.

The CHAIRMAN. Well, generally speaking, the country over, that is not the situation, is it?

Mr. DUMAY. It is so except in a very few States. South Carolina has an 8 per cent rate. They can go to our Federal reserve bank and make 2 per cent.

The CHAIRMAN. And they evidently have done so.

Mr. DUMAY. Yes; surely they have. However, I do not think that their loans to-day reflect a profit. The large amount of commodities held in South Carolina is because of the large amount they are carrying with the Federal reserve bank.

The CHAIRMAN. Now, if your theory of this thing is right, the fact that you can not loan what you borrow from the Federal reserve bank at a profit retards loans in North Carolina, it would seem to follow that in South Carolina where the rate is 8 per cent it would not have that effect. The fact is that the loans and discounts of the North Carolina banks since 1914 has increased 194 per cent, and the loans in South Carolina have increased 166 per cent. So that although in South Carolina they could have charged a higher rate of interest than you could charge, they still were not as much extended as you were.

Mr. DUMAY. That is true.

Representative SUMNERS. Now, it may be just the opposite is shown by that; maybe it is shown that if the people could get some money they could keep their industries active and reduce their debts.

The CHAIRMAN. I am taking his theory for what it is worth; I am trying to see whether it develops in line with what actually occurred. Apparently it does not.

Representative SUMNERS. I think my statement explains how it happened.

The CHAIRMAN. Well, you are theorizing about it.

Mr. DUMAY. It is a matter for theorizing, anyway, I guess. I am only giving you my individual position in the matter. I know very well that I would not borrow a dollar from the Federal reserve bank at 6 per cent unless I had to do it.

The CHAIRMAN. Is it not the very theory of the Federal reserve system that a bank is not supposed to borrow from the Federal reserve bank unless it has to?

Mr. DUMAY. Well, that is one reason that the Federal reserve banks were created, I presume, to take care of emergencies. I do not take it that the Federal reserve bank was created for a member bank to make money out of it.

The CHAIRMAN. Assuming that that is the case, the normal discount rate would be a rate slightly above the market rate for money?

Mr. DUMAY. It might be a less rate through the Federal reserve bank.

The CHAIRMAN. It is not in any other country in the world, and it was not in this country up to the beginning of the war.

Mr. DUMAY. You will find that when the Federal reserve bank raises its rate of discount the money centers will just go them one better. If you put it on that basis, there would be no end to where the rate would go.

The CHAIRMAN. That is not demonstrated by the Federal reserve bank here or by banks in other countries. For instance, the rediscount rate of the Bank of England all through the period of the war, when interest rates were at the highest, was constantly above the market rate for money, and so the Federal reserve rediscount rate here was, until the war, above the market rate for money.

Mr. DUMAY. I was not aware of that fact.

The CHAIRMAN. Of course the minute you put the rediscount rate below the market rate you invite the banks to borrow money from the Federal reserve bank for purposes of profit, which you yourself say is not the purpose for which it was created.

Mr. DUMAY. Some of our neighbors had occasion to borrow money in New York. I have never done that. What money I have borrowed since the Federal reserve bank has been in existence I borrowed from the Federal reserve bank. But they had to pay 7 and 7½ per cent for money, and some of them as high as 8 per cent. The Federal reserve bank rate in this district was 6 per cent. That is the reason I ventured the assertion that money would, as a rule, be above the Federal reserve bank rate. I base it upon that proposition entirely.

The CHAIRMAN. Normally it is not. It has been in this country ever since the beginning of the war, and in my judgment that fact is responsible for a good deal of the trouble we have had. A good deal of the expansion that took place in 1919 was due, in my judgment, to the fact that the war finance of the Government and the necessity of borrowing money necessitated keeping a low rate of interest on loans by the Federal reserve bank, and that brought about the period of speculation that we had in 1919. If it had been possible early in 1919 to raise the discount rate, that period of expansion probably would not have occurred. It was not possible, because the Government was undertaking to sell those loans at a rate below the market, and it could not be done unless the rediscount rates were also below the market.

Mr. DUMAY. I made that statement based upon the facts that I knew; that was all. I do not pretend to keep up with financial affairs. I am down in the country, you know. I have no doubt your statement with regard to that is correct, and I only speak from circumstances that I know myself.

The CHAIRMAN. I do not want to be misunderstood myself, and am not assuming that the policy of continuing the pressure of high discount rates all through the period of the last six months of 1920 and the first six months of 1921 is necessarily sound.

Representative WARD. You have made an interesting suggestion here, Mr. Chairman, and something that is new to me, that it was never contemplated that the member banks should borrow money from the Federal reserve bank for the purpose of lending it to the customer to make a profit on it. If a bank wants to lend money to me and the law of North Carolina says it shall not charge me more than 6 per cent, and it has to go to Richmond and borrow it at 7 per cent, it is something like the case of that frog in the well that jumps up 1 foot at night and drops back 2 feet in the daytime, and the proposition is, what time will he get out?

The CHAIRMAN. It is a question whether the market rate follows the rediscount rate or whether the rediscount rate follows the market rate.

Representative WARD. It presents one proposition that can not be denied, that the Congress would be compelled to put some regulation upon the Federal reserve system that would force a different policy in North Carolina from that adopted in Texas, where the maximum rate is 10 per cent, as against 6 per cent in North Carolina, for to leave the Federal reserve system to arbitrarily enforce the same regulation or the same policy in two States would seem to me to leave the low interest rate State absolutely behind in the race of life.

Representative SUMNERS. If the present policy is maintained, if the present high rediscount rate is continued, North Carolina will have to increase its interest rate or reconcile itself to the fact that it is largely shut off from access to the facilities of the Federal reserve system.

Mr. DUMAY. We have certainly tride to do that, sir, but we meet a frost every time we try it.

Representative WARD. A frost that gradually changes into snow.

The CHAIRMAN. I can see that the limitation you are confronted with in the matter of the interest rate is too great, even in normal times. A margin of 1 per cent would be a very, very high margin between the Federal reserve bank rate and the market rate for money. It unquestionably would discourage borrowings on the part of the banks, when they ought to be encouraged.

Mr. DUMAY. We can not do business on a 1 per cent margin, taking into consideration the risk.

Representative SUMNERS. Of course, when you have got considerable local deposits and you only have to borrow enough to maintain your reserves you can afford to borrow enough to keep up your reserve, depending upon the reloaning of your deposits, I presume, for your profits; and if you can get a margin of 1 per cent you will get it back?

Mr. DUMAY. Oh, yes. You see, when your reserve is depleted in the Federal reserve bank you do not pay a 6 per cent rate; you pay an 8 per cent rate. They charge you 2 per cent above the regular discount rate for the amount depleted in your reserve fund. In addition to that, they will only loan for 15 days at a time and on bankers' collateral notes secured by eligible securities or Government bonds. That is another hardship. However, that is a regulation, I presume, and they think it advisable.

The CHAIRMAN. It is a matter of law, not of regulation.

Mr. DUMAY. I did not know that that was so.

The CHAIRMAN. I might say that when the Federal reserve bank act was first passed it contained no provision at all for loans on the paper of member banks collateraled by eligible paper or Government bonds. That was a policy adopted, as I recall, about 1917.

Mr. DUMAY. We have been carrying with the Federal reserve bank for almost a year a large note that we have renewed every 15 days at 6 per cent. That amounts to more than the 6 per cent rate; that is compound interest every 15 days. That is the way it works out. However, as a banker I am making no protest at all. If it is their regulation or if it is the law, we certainly have to do it.

If there could be some way arranged whereby the Federal reserve bank could lower its rate and still keep the banks from borrowing money from them for speculative purposes it would be the thing to do.

The CHAIRMAN. They tell us they tried to do that in 1919, and every effort was made by the Federal reserve banks and the Federal Reserve Board to discourage the speculation that took place in 1919. Banks were urged to make loans with great caution, and all that sort of thing, but it did not work. And with this expansion continuing and the reserves of the Federal reserve banks gradually going down they found themselves confronted with the necessity—I am telling you their story now—of taking some other action to stop the expansion and speculation that was occurring all over the country. That was the begining of the adoption of the higher rediscount rates.

Mr. DUMAY. Member banks are restricted to 10 per cent of their capital and surplus in making loans, and there are mighty few banks which will violate that restriction. It seems to me there could be some plan adopted whereby the Federal reserve banks could control the matter of banks borrowing from them for speculative purposes.

The CHAIRMAN. Do you think it would be preferable to set up somebody in the Federal reserve bank as arbiter, to arbitrarily pass on the question of whether a bank should have a loan or whether it should not have a loan, or it would be better, on the other hand, to regulate it by a rediscount rate which applies to everybody in the same way?

Mr. DUMAY. I should think it would be better, if it could be done, to have some regulatory force in the bank to control the speculative feature.

The CHAIRMAN. I have a notion that if we had somebody in the Federal reserve banks undertaking to pass on loans which member banks should have, determining that one loan was speculative and another one was not, that they would not take certain paper for rediscount because it was speculative and they would take other paper because it was not speculative, the banks would be the first fellows to object.

Mr. DUMAY. They do that right now, sir; they will not take paper based upon real estate security.

The CHAIRMAN. Well, that is because the law will not permit them to, not because they have somebody to decide that.

Mr. DUMAY. They will not take notes secured by any stocks or bonds, outside of Government bonds.

The CHAIRMAN. That is because the law prohibits it. The law itself adopted that policy, but you would set somebody up there to use his own judgment over the judgment of the bank as to what loans the bank should make and what loans the bank should not make.

Mr. DUMAY. Well, I did not mean the view the bank would take itself of regulating the loans, but to pass upon whether the bank was entitled to additional credit for its self-protection rather than for speculation. That is my idea about it.

The CHAIRMAN. Does not that involve in itself a determination of the character of the member banks' transactions? It comes right

back to the same point either way. Either the Federal reserve bank has to take the position that it will regulate the volume of rediscounts by rediscount rates or else it has got to take the position that it is going to set itself up as the arbiter of the question wherever it believes that rediscounts ought not to be granted. And it seems to me that, take it by and large, the first is preferable, because it leaves the management of the banks to the bankers and leaves the question to him to determine whether he wants a rediscount or not.

Mr. DUMAY. The increase of the rates will effectually stop the banks from borrowing money except in cases of distress. Where a bank gets in distress they have to pay whatever is required of them; the country bank would not voluntarily pay a higher rate of interest than they can get on loans. On the other hand, they might be called upon to pay a higher rate to protect themselves.

The CHAIRMAN. Is there not something rather receptive in that suggestion, in view of the fact that the bank, of course, does not borrow from the Federal reserve bank the amount which it is loaning to its borrowers, but only borrows the proportion of the loan which is necessary to maintain its reserve? Is not that true?

Mr. DUMAY. Yes.

The CHAIRMAN. I have asked you enough questions. I did not want to stop you from presenting any matter that you have in mind, Mr. Dumay.

Mr. DUMAY. No, sir; I do not think of anything further.

The CHAIRMAN. The commission, I think, appreciates the difficulty that confronts you in the fixed maximum rate of interest that the bank can charge—a situation that probably does not exist in many States.

Mr. DUMAY. We are in a very unfortunate position—there is no question about that—and we can not help it. We have tried our best to remedy it, but we have been unsuccessful in doing so.

The CHAIRMAN. We are very much obliged to you, Mr. Dumay.

Mr. DUMAY. You are entirely welcome, sir; and I appreciate being called if I have done any good.

The CHAIRMAN. Now, Mr. Mosher, we will listen to you for a while, and you can tell us what happened in the ninth Federal reserve district.

STATEMENT OF MR. CURTIS L. MOSHER, ASSISTANT FEDERAL RESERVE AGENT AND SECRETARY OF THE BOARD OF THE FEDERAL RESERVE BANK OF THE NINTH FEDERAL RESERVE DISTRICT, MINNEAPOLIS, MINN.

Mr. MOSHER. Mr. Chairman, I want to be just as brief as possible, and I do not want to burden your record with unnecessary material; and if you will ask me such questions as you choose to ask, and on which you would like information, I would be glad to answer; or if you would like to have me go ahead and outline what has happened in the ninth Federal reserve district I can proceed and do that.

The CHAIRMAN. If you will proceed and outline what has happened in the ninth Federal reserve district you may do so, and then the members of the commission can ask you questions and draw out any additional statements they desire.

Mr. MOSHER. I presume this commission is fully advised of the situation with which the Federal reserve bank has to deal in the ninth Federal reserve district. In the first place, we have in our district 3,863 banks. Two thousand two hundred and twenty-eight of those banks are ineligible for membership in the Federal reserve system, for the reason that they are State banks and have not sufficient capital; they have not a sufficient amount of capital necessary to establish a national bank at the same point, and therefore there is no opportunity for those banks to come into the Federal reserve system until their growth is sufficiently advanced through capital to the réquired point.

We have 1,016 members out of the 3,863 banks, and those are the only banks, of course, of which I speak.

The CHAIRMAN. How many of those banks are State banks?

Mr. MOSHER. One hundred and thirty-four of the member banks are State banks, and 882 of the member banks are national banks. The growth of the State bank membership has been very satisfactory.

I think the clearest way of stating our situation in the ninth Federal reserve district is to go back a little bit, to the fall of 1918. That was the last crop liquidation we had. In that year the crop came on in good shape; it was a good crop; railroad facilities were adequate, and the crop moved very promptly to its markets. There was nothing to interfere with the free and natural flow of the crop to the terminals, and at the end of the year, although our rediscounts had been up to $97,000,000 on the 13th of September, 1918, they were down again to $3,500,000. In other words, there had been the seasonal demand that was contemplated by the law; the seasonal demand had come and gone, and the liquidation had occurred, and coincident with the liquidation there was a reduction of the $97,000,000 in rediscounts—which had been reduced by some almost $94,000,000.

In 1919 when the crop came on with the fall seasonal demand—and that is the big demand, as you know, in our district—we encountered in the first place a serious railroad situation—a very acute railroad situation; a very acute car shortge. I was a member of the committee which bombarded the railways and Interstate Commerce Commission with requests for cars for the purpose of moving our grain to the terminals, and they did the best they could do for us, but at best the supply was decidedly unsatisfactory and insufficient.

We had at the same time an exceptionally early winter, and the result was that the country roads were blockaded before the crops had reached the shipping points. The result of that was that liquidation did not occur at the usual time—that is to say, from the 15th of September on through the late fall.

By the first of October the movement of grain in our territory ought to be in pretty good swing, and by the middle of October it ought to be in full swing, and by the end of the year it ought to be pretty well along.

Representative SUMNERS. What do you mean by pretty well along—if it will not interrupt you?

Mr. MOSHER. I mean to say that the harvested grain should have reached the terminal markets by the end of the year, in usual practice.

The CHAIRMAN. At least 65 or 70 per cent of it should be in by hat time?

Mr. MOSHER. Yes; it should be in and on its way to the consumer, r to the mills, as the case might be.

But that did not occur, as I said, in 1919; and it was not until 'ebruary 2, 1920, that any liquidation began. Then it was small nd only temporary. At the end of the month of January, 1920, ur bank carried an overload of $65,657,534 of credit. That was a henomenally large amount for that period of the year. It was e first time that we had ever gone over the first of the year with n abnormal load of unliquidated paper.

There have been only two months in the 20 months since then in hich the total rediscounted paper in our bank was less than at the nd of February. There was some reduction to the end of March, nd some reduction from the end of March to the end of April. At he end of May the $65,657,534 of rediscounted paper with which we tarted the year had arisen to $86,469,575.

Representative SUMNERS. How much had the rediscounts been reuced?

Mr. MOSHER. They had increased from $65,657,534 to $86,469,575; at was to the end of April. At the end of May they were $95,174,-13: at the end of June they had arisen to $96,313,706, as compared ith the $65,657,534 at the beginning of the year.

At the end of August they had risen to $101,197,483; and at the d of September they had risen to $103,854,376. And late in ovember, near the end of the month, it had risen to $129,000,000. hat was the high point reached last year. From the high point in ovember down to the end of the year there was some liquidation. he liquidation from the high point to the lowest point this year mounted, in round numbers, to $44,000,000. None of it came from gricultural sections or from member banks in those sections. When say none of it, I speak in a broad way. What I mean is that that quidation is traceable to other sections, which I will mention in a oment and show the figures.

Now, if we go to the other side of this sheet, we find the loans at he end of the year to the 16 large banks in St. Paul and Minneapolis, hich do a large banking business with the country banks—banks elonging to the 2,228 banks which can not take membership in the ederal reserve system and get money in that way. Their borrowngs from us at the beginning of 1920 were $56,965,000. That figure ose at the end of October to $70,380,000. But from the end of ctober to the end of July of this year the total was reduced to 33,628,000. And there, you see, is where the contraction in our oans occurred. In other words, the larger city banks were the ources from which this liquidation was mainly obtained.

Now, there are some other figures in connection with that that are xtremely interesting. I have had our own statisticians in our office xamine the books of those banks. I wanted to see exactly where the funds they had borrowed from us had gone. They found this ituation: Those same banks had, on October 20, 1919, loans to country banks and bankers outstanding of $37,240,767; and they had deposits, or compensating balances from country banks of $98,116,-456. But on August 11 of this year—this was a special investiga-

tion that I had made just before I came down here—their loans to country banks and bankers were $76,704,711; but the deposits from country banks were $45,413,102; and the relation was, with October, 1919, as 100, on August 11, 1921, it was 205.9; but their deposits had shrunk, taking October, 1919, as 100, to 46.3. So it is evident, taking the figures from January to August—on January 1, 1920, they had $43,424,852 of loans to country banks and bankers, and on August 11, 1921, they had $76,704,711—that they were loaning more heavily all the time during that period. That is to say, throughout the full course of this year down to date, instead of being able to obtain a reduction in the amounts due from the country banks and bankers, those amounts actually increased; on the other hand, the amount of deposits from the country banks was decreasing, so that on August 11, 1921, it was $45,413,102.

The CHAIRMAN. Which would indicate a large liquidation in city loans?

Mr. MOSHER. Yes; and that is indicated by any amount of collateral evidence, that the merchant and wholesaler was liquidating his indebtedness with his city bank, and the city banks were reducing borrowings from us.

Representative SUMNERS. Where did the wholesaler get his money?

Mr. MOSHER. He got it by collections.

Representative SUMNERS. If it happened that the country banks borrowed money, and that borrowed money, through the process of payment to the city creditors, was turned in to the city creditors and the city banks and they liquidated their indebtedness in that way, that was money borrowed primarily by the country banks?

Mr. MOSHER. I would not be able to express an opinion about that. If that was true I have not noticed it in our district. I have not noticed that, but I know that the larger houses, the larger machinery houses, and the wholesale houses, were perhaps a little quicker to sense the drift of things than the smaller houses and the country merchants and farmers were. Certainly, they began to see signs of stringency some time ago, and wherever it was possible for these larger houses to get a little money they got it, and wherever it was possible for them to reduce their inventories they reduced them, and they were in a position at the beginning of this year to reduce their bank obligations.

Representative SUMNERS. They could not, having their goods scattered throughout the country on credit with their customers—I do not see how they could liquidate, unless they collected from their country customers, and the country customers probably got the money through rediscounts by the country banks.

Mr. MOSHER. Of course it can not be overlooked that liquidation was not entirely suspended at the banks, although it was exceptionally slow. Grain was being sold very slowly, and at intervals. The facts, so far as we can arrive at them, are these. The agents for the city merchants were very active, and as the farmer sold his grain, and delivered it to his local elevator, in the smaller cities, the local machinery man and the local grocer were pressing him for money, and those men were being pressed for money by the city collector, and

n that way money was collected in. Perhaps the country bankers vere not as alert as they should have been, and did not press their ustomers as hard as they should, or as hard as they might have. ?ossibly they were a little more considerate and did not apply the pressure. However, that money came in, and the wholesalers collected up, and the liquidation was through commercial channels, and not through the country banks.

Representative SUMNERS. It seems to me in this liquidation which ook place in the city, they cleaned the country out of all the money hey could get—I do not say this in criticism—and left the country merchants holding the sack. They got all the money that had been ent out by rediscounts through the Federal reserve bank. I do not ee how it could be otherwise, if the country banks did not have it; he grain was sold, the money was not on deposit in the country banks. The money was drawn from the country into the city. The city rediscounts went down and the country rediscounts went up.

Mr. MOSHER. How would it have been drawn into the city?

Representative SUMNERS. It was drawn into the city first by purchases made by country people and the payments of their accounts o their merchants; payments of accounts to their merchants which did not have to clear through the banks; the city merchants in turn ent the money to the city banks for deposit there, and they, in turn, educed the rediscounts at the Federal reserve bank.

Mr. MOSHER. That would turn the money to the city, if the money was borrowed from the Federal reserve bank and loaned to the country banks, and the man in the country who paid his merchant who had borrowed money from the bank——

Representative SUMNERS (interposing). Yes.

Mr. MOSHER. And then he would, in turn, pay his wholesaler, and so forth.

Representative SUMNERS. Yes.

Mr. MOSHER. I think if that was the general policy, we would have had some evidence of it.

Representative SUMNERS. How could it be otherwise?

Mr. MOSHER. Of course, there was a certain amount of liquidation; liquidation was not entirely suspended, even though the grain did not come in promptly. A good deal of grain came in, as a great deal of grain comes in every fall; and the country merchant was undoubtedly very alert, and he pressed the people for collection of their accounts and probably collected considerable sums which did not go through the bank at all. Grain is a cash commodity in our country, and they would probably market a load of grain, and then probably pay the merchant, and the merchant the wholesaler, and the wholesaler would liquidate his indebtedness.

Representative SUMNERS. Yes; I think that is what happened.

Mr. MOSHER. But it did not reach the banks. There wasn't any improvement in bank deposits, and there wasn't any payment of loans. Most of our paper is made to come due at the crop-moving time. That is our one pay day in the grain country. I think there are some reasons why liquidation has been very slow in the Northwest. It was very easy in 1918.

In 1919 there were some very unusual conditions. The car shortage was one; the weather condition was another; and the blockade of

the country roads was another, which delayed the normal processes of liquidation. By a combination of those delaying processes we worked along from week to week, thinking that liquidation was about to occur, but it did not occur, and spring came, and by that time the price situation became rather unsatisfactory and the farmers who had borrowed at their banks rather freely at the period of high prices became worried about their notes, but they did not want to sell at those prices, and that still further tended to hold back this crop, with the hope that prices might improve. But it did not improve, and it was only comparatively recently—I should say within three or four months—that there has been any disposition on the part of those who were holding back supplies of grain to market that grain and turn it into cash.

I think this is an element in the situation which is not well understood, and which is a little hard to analyze. The current crops have been very economically handled.

Representative SUMNERS. That is true all over the United States.

Mr. MOSHER. Because the farmers have not gone to the banks as freely as formerly. Yet that proves that the farmer has drawn on some of this grain, the same as he would draw on a savings account. If he was pressed for money, he would go and take a load of grain to his town and sell it, and so in that way he would dribble it out. And so, while there has been a little liquidation from day to day, it has not been enough to reflect itself in the deposits in the country bank or in liquidation there, or in an improvement of their city balances.

The CHAIRMAN. One of the phenomena that I have not seen any explanation of is that during the last six months particularly, when demand deposits have been falling off considerably, time deposits have been continuing to rise in almost a normal way.

Mr. MOSHER. I don't think they have been so seriously interfered with. Of course, some peculiar conditions develop in communities like North Dakota, where money has been withdrawn by outsiders and that has tended to embarrass the banks in certain localities. Whatever checking account the farmer had, if he did not replenish it may have been improved by cashing a certificate of deposit, but he would, if he had any money, put most of it into a C. D., and the farmer would hesitate a lot before cashing a C. D. There has been some of that done.

Representative SUMNERS. What is a C. D.?

Mr. MOSHER. A certificate of deposit. I could give you some figures, if you would like to pursue that to see what the course of those figures has been.

The CHAIRMAN. We would be very glad to have them.

Mr. MOSHER. I was very much interested in obtaining from the office to-day by wire a tabulation of the figures as of June 30, 1920, which is a date that we can compare with some of these other figures, the total loans and discounts of nonmember banks. The loans and discounts of national banks on that date were approximately $598,000,000. The loans and discounts of State banks and trust companies were $690,000,000. The borrowings of national banks at the Federal reserve bank—national bank and State bank members of the Federal reserve bank—were $84,664,000. The borrowings of

State banks from their correspondents and from all other sources were $83,831,000. And it indicates that the percentage relation of the borrowings of member banks from the Federal reserve bank was almost exactly the same relation that has been maintained by nonmember banks borrowing from entirely different sources, because with loans and discounts, which are relatively about the same, the borrowings are reasonably close together.

Representative SUMNERS. Is not that what you would expect?

Mr. MOSHER. I would not expect any great difference. I think the pressure is evenly enough distributed so that you could see that result. The borrowings by the banks in the Federal reserve system was paralleled by a group of nonmember banks that were not in the Federal reserve system at all. And if that is the total of obligations for borrowed money in both the national and State banks, it is safe to add $20,000,000—I think that is very conservative—borrowed by officers of the banks for the customers of their banks. If that is correct, and I think it is, the figures show that these banks are carrying an overload at the present time of $188,495,000. That is the money they have brought in from some source—the Federal reserve bank, the city banks, and other sources—to take care of these stock and grain customers. And it represents an exceptionally heavy load, which has got to be cleaned up before these banks are free and have funds again to function in the normal way. That, I think, is our problem now, to get these banks in a position to take care of the business in their communities, and then a more normal situation will come and the grain men and the live-stock men can be assisted in the normal way.

Representative SUMNERS. What are the people doing with their new crop?

Mr. MOSHER. It is a little too early to say. There is a very considerable movement to market, I think.

Representative SUMNERS. How much of the old crop is there remaining on hand?

Mr. MOSHER. There is considerable. There is some rye and some corn and considerable other grain.

Representative SUMNERS. What is happening to your live stock up there? Is your she stuff and young stuff and immature stuff put on the market to any considerable degree?

Mr. MOSHER. I am sorry to say that in the early summer they marketed some of it. South St. Paul got a good many calves and pigs that were not fully matured.

Representative SUMNERS. Do you not regard that the necessity of keeping those cattle and those pigs on the farms is a far greater necessity than the necessity of liquidating the loans in the banks?

Mr. MOSHER. Absolutely; our bank has never held any differently.

The CHAIRMAN. There has been a very strong contention here that a very great restriction of credit has taken place, particularly in the agricultural sections, and that a different policy has been adopted with respect to agricultural loans and industrial loans. Can you throw any light on that subject from the standpoint of the ninth district?

Mr. MOSHER. I have heard that criticism very frequently, Mr. Chairman, and the book to which I have referred you was written in

response to questions of farmers at some of their conferences, some of which were quite large and most of which I attended. The question came up, Why are you restricting credit? Where is this restriction of credit? Get it out in the light, so that we can identify it. Surely, if you go back to February, 1920, to a total of $65,657,000 of rediscounts in our district, and which is $84,804,000 now, and in the interval between went as high as $129,500,000, there is no evidence there of a restriction of credit.

And in that connection it is interesting to take up another situation. In the ninth district the main business is agriculture. Now, if there were a disposition in that reserve bank to loan too freely to commercial business—I mean what is commonly called "big business"—it would be interesting to find out what those loans were. In Minneapolis we have the grain and flour milling business, and the banks in Minneapolis notified the grain and milling trade that they would appreciate it if they would stay out of Minneapolis and leave their lines of credit intact——

Representative SUMNERS (interposing). I did not quite get that.

Mr. MOSHER. They notified the grain and milling firms that they would very much appreciate it if they would leave their lines of credit in Minneapolis and St. Paul banks intact, and do their financing, as they easily could, in the East, and in the bill market. And they responded very nicely, and the amount of credit they sought there was very small.

Representative SUMNERS. Why did they make that request?

Mr. MOSHER. Because they foresaw that the $78,000,000 loaned to the country banks and bankers would not likely be reduced, but that probably it would be increased; and to prevent a feeling by the country banks——

Representative SUMNERS (interposing). They wanted to hold their resources to take care of the local situation?

Mr. MOSHER. Locally in the district. The grain and milling trade had always done its financing largely in the open market; their credit is very, very strong, and, ordinarily, they can obtain money in the East and in the bill market, and they go to where the money is easier than in our country, and there they get it at a less rate.

I do not know where there is any business of any magnitude until you get to the copper sections in Michigan, and I never have seen any of that paper in our bank. Gov. Young told me we have had some of the smaller companies that were not so strong as the old companies.

In northern Minnesota we have some enterprises up there like the iron mines and the steel mill at Duluth, but I have never seen any of that paper in our bank. Their financing is done some other way.

Then you go on to Butte, where they have the smelting and mining interests, but their financing is handled similar to that of the milling interests. I do not think we have ever had any of their paper in our bank.

The CHAIRMAN. Is not the condition of that bill market reflected at all in the banks?

Mr. MOSHER. Not to any extent. Minneapolis furnishes some market for bills, but it is not large, and is mostly commercial paper. These industries have the open market where they can dispose of their

bills in order to finance themselves. The industries in the Black Hills ire financed in much the same way. We never see any of that paper n our bank.

The live-stock interests at Sioux City and South St. Paul have a lose relation to the live-stock industry in our district, but we never ee that paper in our bank, although it is afloat in our city. It is ometimes purchased, because the packer paper is considered good nywhere.

So when you get right down to it, the business of any magnitude hat we have a chance to finance is the farming and stock raising busi-ess. I have frequently said that anybody can take our statement on Saturday night and show that 90 per cent of our last week's busi-ess was in farming and stock-raising paper. That is shown by these igures here of July 30. Our loans to the only banks in the district which are located at the points where they would have opportunity to get any commercial business of importance are St. Paul, Minne-apolis, and Duluth, and the loans are $36,328,000; but on August 11—0 days later, these same banks had loaned the country banks and ankers $76,000,000—$40,000,000 more than they had borrowed from s. I think that is quite conclusive proof of where that money has een loaned, and that what funds they took from us were not for com-ercial accommodation, but were switched to the country banks and hat those banks, many of which were not able to get into the Fed-ral reserve system directly, have gotten assistance indirectly from he member banks.

The CHAIRMAN. I suppose the rediscount rates were increased iroughout the ninth district, as they were in all others; did those re-iscount rates have any effect in compelling a liquidation of the ans?

Mr. MOSHER. I do not know that all of the officers of our bank would agree with me, but I am absolutely convinced that they had o effect whatever. They had this effect, that would be susceptible f proof, that our fractional advances may have given warning of a oming stringency, and some people might have borrowed a little less, nd in that case they might have had some effect. But the country anker who needed the money, if the pressure from his farm cus-mers was keen, what difference does it make whether the money as 5½ or 6 per cent?

The CHAIRMAN. If it did not have effect, why was it put on?

Mr. MOSHER. It had an effect sentimentally. When the warnings ere given, as early as 1915, that the resources of the district must e carefully conserved in order to take care of agriculture, it was a arning to the people that money was not easy. To those who were ise it was just a caution signal. Now, whether Gov. Young would gree that it was more than a caution signal, I do not know. He night not agree with me on that. He might say that the rate would ccomplish a considerable reduction in the rediscounts. I can not see t myself.

Representative SUMNERS. The legal rate in your territory is con-iderably above 6 per cent?

Mr. MOSHER. Yes; in all the States.

Representative SUMNERS. The contractual rates is what I mean.

Mr. MOSHER. Yes; the contract rate. I can submit to this commis sion, Mr. Chairman, a schedule of the dates and degrees in which ou interest rate has been progressed.

The CHAIRMAN. I think that is important.

Mr. MOSHER. Pérhaps you already have it. You have an averag of the agricultural rates?

The CHAIRMAN. I think I have the annual report of the bank which, of course, shows the interest up to January 1, 1920.

Mr. MOSHER. Yes.

The CHAIRMAN. I do not know that it shows the average rate. presume it does.

Mr. MOSHER. The point I am getting at is, I do not recall an instance in which our rediscount rate has been higher than the rat to an agricultural borrower in any part of our district, unless it b that some good farmer in the home section of your State should g into a bank and borrow money on a straight note and get the mone there at 6 per cent.

The CHAIRMAN. I think that is very doubtful, because when I wa at home in May the banks were making few loans at less than 7 pe cent. The rates were then increasing.

Mr. MOSHER. The advance in the discount rate, therefore, if th is true—and it is true—has been no hardship.

The CHAIRMAN. You did not have the progressive rate in operatio in your district at any time?

Mr. MOSHER. We did not have the progressive rates at any tim It has been our policy to try to control the very rapid expansion c loans. You can see how rapidly they advanced when they went u from $65,000,000 to $129,000,000 from us alone, to say nothing c the local advances. If that had continued at the same rate it woul have been very serious. It looked very serious as it was for a while.

The CHAIRMAN. Was the continuance of that possible—the expar sion and increase of rediscounts and loans, was not that the real re son for increasing the rediscount rate?

Mr. MOSHER. I think it might be said—I speak for our bank only- that when we advanced the rate we advanced it very gradually, an that each of those advances was accompanied by a statement callin attention to the serious condition, and urged that every possible pr caution be taken to conserve our resources, so that the farmer an stock raiser might be accommodated with credit. And yet, in spit of that, the expansion of loans was very much greater than many o us wanted to see.

I think, Mr. Chairman, I might file with the commission a photo stat copy of our circular of December 19, 1919, and also a copy of similar circular of August 4, 1920.

The CHAIRMAN. Without objection, they may be read into th record.

(The circulars referred to are as follows:)

FEDERAL RESERVE BANK OF MINNEAPOLIS.

To all banks and trust companies in Federal reserve district No. 9:

The advance in the discount rates of the Federal reserve bank of Minne apolis is another warning to bankers and the general public that the resource of the Federal reserve system are not unlimited. It is my sincere hope that th significance of this action will be understood and that it will not be necessar to again advance the rates at a later date.

The first warning was issued in October, 1915, and has been repeated at various intervals since that date, but the action taken by the Federal reserve bank has not been given sufficient attention or possibly it has not been properly understood.

The resources of the Federal reserve system were intended for the benefit of commerce and industry. It was not the purpose that they be used to stimulate the investment market or to encourage and support speculative movements. To this date commerce and industry have received extensive benefits, both direct and indirect, from the Federal reserve banks, which will, of course, continue their established policy and take care of all the legitimate and reasonable requirements of business, including agriculture.

It is quite evident, that through the extravagance of individuals and the indiscriminate extension of credit by certain banks for investments and speculative purposes, the reserves held by the Federal reserve banks have been used through an indirect process for purposes other than those intended and authorized by law. The extension of credit for speculative purposes is not confined to stocks and bonds alone, but substantial advances have been made to encourage the movement of land, and for speculation in commodities. The Federal reserve bank of Minneapolis, in common with other reserve banks, has used every precaution to eliminate such use of its facilities, but indirectly these credits have been extended, with the result that an unwarranted overextension of credit exists at this time over the country as a whole. If this condition is permitted to continue it will in time work a severe hardship upon everyone.

Experienced bankers are cognizant of the real situation and are confining their advances in accordance with sound and prudent banking judgment. Certain banks have not exercised proper discrimination and are accumulating loans that do not help the general situation. Such banks are depending on sources other than the Federal reserve bank for assistance in the event of an emergency. Such assistance is, of course, secured indirectly through the Federal reserve bank and this warning is issued particularly to banks that are following this course as a reminder to them of the unwisdom of depending upon the Federal reserve bank for indirect support that it would not be permitted by law to extend directly to its own members.

The Federal reserve bank will thoroughly investigate all applications from member banks. If the proceeds of such rediscounts are to be used, either directly or indirectly, for purposes other than those intended by law, such applications will not receive favorable action.

The Federal reserve bank is compelled to consider not alone whether paper offered for rediscount is eligible, but whether the purposes behind the application for rediscount are in conformity with the law and with its publicly announced policy. It is very desirable that all banks, both member and nonmember, carefully analyze their loans and discriminate in the extension of credit, discouraging borrowing for nonessentials and requesting their customers to clean up their old indebtedness before incurring new obligations. Many loans which are not in themselves objectionable will be found upon analysis to be unnecessary at this time, and while the strain upon credit continues borrowing for such nonessentials should be vigorously discouraged.

A failure to follow this policy is very likely to result in placing the bank involved in the embarrassing position of being compelled to explain to borrowers who desire funds for necessary commercial and industrial purposes that it is unable to afford them reasonable support because of the fact that its deposits have been loaned in too large a measure for speculative purposes.

The rigid restriction of loans to those which are actually necessary in order to properly support commercial business, industry, and agriculture of the ninth district can in no wise harm any except those who by reckless expenditure of both their funds and their credit have encouraged inflation. Such a policy is essential and necessary if the present strain on credit is to be checked before it results in widespread injury to all business and to individuals.

The Federal reerve bank is convinced of the abolute necessity of prudence, caution, and wise discrimination in both the extension and the use of credit.

Yours, respectfully,

R. A. YOUNG, *Governor.*

DECEMBER 18, 1919.

FEDERAL RESERVE BANK OF MINNEAPOLIS,
August 4, 1920.

To all member banks:

During the past nine months the Federal reserve bank of Minneapolis has been under an unusually heavy strain in meeting the demands that have arisen through the necessity of aiding the production and distribution of agricultural products, the raising and marketing of live stock, and the commercial activities in connection with these operations. This bank was able without outside aid to meet the demands which have arisen until January 1 of the current year. Since that date it has been an almost continual borrower from other Federal reserve banks in order to maintain its legal reserve, and its borrowings have ranged in amounts of $1,000,000 to $25,000,000.

Erroneous impressions as to the functions of a Federal reserve bank seem to exist among some banks and in the minds of the business public. Primarily this is a reserve institution. It was not the intent of the law that we should finance continuously any particular industry, but rather it was the purpose of the law that the rediscount facilities of this Federal reserve bank should be used for seasonable demands, such as those arising in planting or harvest time, or during the existence of an emergency. This bank has experienced since its organization the demands arising out of the movement of six crops, and it has functioned smoothly, promptly, and satisfactorily, gradually increasing its advances to member banks from April to September of each year and experiencing prompt liquidation with the movement of the crop to market in October and November. In the fall of 1919, however, largely because of unforeseen transportation difficulties, an emergency was created by the slow moving of traffic. The customary liquidation in October, November, and December did not occur, and as a result our resources have been freely used by a large number of member banks during a period of more than a year. This institution has demonstrated during this period its ability to function satisfactorily for the benfit of agriculture, commerce, and industry and to meet the emergency that existed.

Our ability to meet this credit situation was due in no small way to the close cooperation between this institution and its member banks and the ready willingness of the latter to work in accord with this bank in eliminating capital, investment and speculative loans, and loans based on nonessentials. This bank desires to thank its members for the cooperation and assistance thus afforded.

At this date all indications point to good crop yields. While it is not expected that farm products will move to market as rapidly as in a normal year, there are assurances that the movement will be better than that of last fall. Bankers will have first call upon the proceeds of the shipment of the new crop and the movement of live stock this fall. If they do not secure sufficient liquidation from their customers to retire their obligations with us and with their city correspondents and build up stronger reserves, we feel that they will be remiss in the duty that rests upon them in preparing for the agricultural and live-stock requirements of the coming year.

At this time it appears highly desirable that the Federal reserve bank should make provision for the future by the reduction of the volume of credit extended to its members, and thereby insure its ability to meet the demands that will result from the planting and harvesting seasons of the coming year.

We propose establishing accurate records of the shipment of agricultural and live-stock products from each section of this district to the markets. When these products have moved we shall insist upon liquidation from every member bank in this district that has had occasion to use our rediscount facilities, and it will be only under unusual circumstances that member banks will be warranted in making applications for rediscount during the period between crop moving and spring planting. This should not inflict a hardship upon necessary business, agriculture, or industry, as we feel that with good crops the resources of our member banks will be sufficient to take care of the requirements of such borrowers during the winter months.

Unusual inducements are sure to be offered to all banks to grant accommodations to borrowers for loans of a capital, speculative, or investment nature. Nevertheless, while this strain and the inflated condition of credit continues it is unmistakably apparent that member banks in the ninth Federal reserve district should continue their policy of confining their loans to short-time obligations, and even under this policy the credit extended should amount only to that which is necessary to aid the production, manufacture, and distribution of necessary goods and commodities.

Yours, respectfully,

R. A. YOUNG, *Governor.*

Circular No. 218.

The CHAIRMAN. The figures from which you read may also be inserted in the record.

(The figures referred to are here printed in full, as follows:)

Twin City member bank loans to and deposits from country banks.

	Loans to country banks and bankers.	Relative to October, 1919, as 100.	Deposits from country banks.	Relative to October, 1919, as 100.
Oct. 20, 1919	$37,240,767	100.0	$98,116,456	100.0
Jan. 1, 1920	43,424,852	116.8	84,759,994	86.4
Oct. 20, 1920	78,047,477	209.8	62,255,584	63.5
Jan. 1, 1921	75,372,457	202.2	55,853,771	56.9
Aug. 11, 1921	[1] 76,704,711	205.9	45,413,102	46.3

[1] Estimate, based on returns from banks which, on the earlier dates, had 75 per cent more of such loan and country-bank deposits in the Twin Cities.

Borrowings of State banks in Minnesota, North Dakota, South Dakota, and Montana on Feb. 21, 1921, and June 30, 1920.

	Feb. 21, 1921.	June 30, 1920.	Increase in borrowings on Feb. 21, 1921, over June 30, 1920.
Minnesota, notes rediscounted and bills payable	$29,807,405.94	$17,044,000.00	$12,763,405.94
North Dakota:			
Bills payable	19,141,182.09	11,049,000.00	
Rediscounts	1,524,370.71	1,666,000.00	
Total	20,665,552.80	12,715,000.00	7,950,552.80
South Dakota:			
Bills payable	12,601,263.92	7,664,000.00	
Rediscounts	4,496,666.50	4,092,000.00	
Total	17,097,930.42	11,756,000.00	5,341,930.42
Montana, bills payable	13,177,316.73	9,691,000.00	3,486,316.73
Grand total	80,748,205.89	51,206,000.00	29,542,205.89

Representative SUMNERS. I want to ask you if it is not your judgment as a banker that when a country is in a condition we are in now, notwithstanding the fact that discounts are large, that it would be better to extend new credit where the individual loan is sound, and put the communities into productive activity more nearly approximating their capacity, than to adopt the opposite policy?

Mr. MOSHER. I think I should want to answer that question in a rather cautious way, with the object, simply, of not wanting to be misunderstood. I would not feel any hesitancy in saying that there has not been any time since the beginning of the war when credit has not been extended fully and freely by our bank.

Representative SUMNERS. I am not speaking of that.

Mr. MOSHER. I had a purpose in making that statement first. On the premise of that statement, I think it is very fair to ask the question if, when our course has been to extend to the farmer and stockman all the credit that he required, while cautioning him all the time to cut his requirements down, and keep his requirements down as low as possible, whether, after he has borrowed as heavily

as he has, and has become involved as deeply as he has, whether we are going to help him by loaning him any more money.

Representative SUMNERS. Now, let us take a concrete example. Take a farmer in the corn belt who is already pretty well loaded up. He knows where he can buy, if he can borrow the money, some live stock to which he can feed his corn, and keep himself and his boys busy. Now, that is one side of it. If he is not given this accommodation and enabled to purchase the live stock which he can feed, this immature live stock will go to slaughter, and he and his boys will be sitting around this coming winter doing nothing, when they might be feeding those animals, putting fat on them and increasing their value, and increasing the Nation's food supply. Those situations can be multiplied by the thousands, and I suppose the hundreds of thousands in the United States right now.

Mr. MOSHER. Mr. Sumners, the Federal reserve act especially applies now to a situation of that kind, and it is possible to rediscount paper for the purpose of taking care of live stock that is being matured.

Representative SUMNERS. That question is not directed to the Federal reserve system especially——

Mr. MOSHER (interposing). The point I desire to make is this: I think it was in the House, when the bill was under consideration, that that particular expression was placed in the bill; a provision, or amendment, was placed in the bill allowing the rediscounting of paper for the purpose of making it possible to feed and mature live stock, and that amendment was specially placed in the act, so that it was possible to rediscount paper based on that sort of transaction.

Representative SUMNERS. Take a different situation: Here is a ranchman who has a debt which is very heavy. He has some she-stuff and calves that he could sell, and reduce the amount that he now owes; of course, he has an overhead and operating expenses. If he could get some more credit he would be able to keep the cattle on the ranch, for which he has proper grass and feed. It would postpone for a while this time of payment, but would increase the possibility of it. It seems to me a situation of that sort should be taken care of.

Mr. MOSHER. There are some situations of that sort that do arise. They arise in our district quite frequently, and when you come to consider them you will find, as is ordinarily the case in regard to the maturing of the 2-year-olds on the ranch, that you become involved in a situation that takes about 26 months. The provisions of the Federal reserve act make it impossible to rediscount paper for that length of time, and if he can get credit at his local bank or elsewhere for some time, the Federal reserve bank may be able to take care of it during the last six months if it is a proper obligation and comes within the proper definition of eligible paper. As a purely personal idea I have had the thought in mind that there should be some method of taking care of that sort of thing. Not by the Federal reserve bank, possibly, but maybe in the Federal farm loan bank, by which a man who has stock and who is thoroughly experienced and used to the stock business could take 2-year-olds and handle them and mature them for the market if there were some way for him to obli-

gate himself to pay in 24 months or 26 months. I happen to know of cases in Montana, where there is plenty of land and good grass and ample feed, where such conditions arise. Ordinarily in normal times, before this great pressure came on, the local bankers were quite friendly to a situation of that sort. Of course, a local bank does not have to make all its loans eligible for rediscount at the Federal reserve bank. They could take a loan on this young stuff, and when that loan came up to where it had only six months to run, as I said, they could then, if it became proper paper to rediscount, rediscount it with the Federal reserve bank, provided it complied with all the regulations. There is a lot of that paper. It would be a very interesting subject to study as to whether there should not be broader operations to foster a situation of that kind.

Representative SUMNERS. It seems to me the pressure to require rediscounting and reduction of outstanding loans would tend to destroy efficiency and reduce the productive energy of the country, and would work against the very thing that we hope to reach, the condition of a more general——

Mr. MOSHER (interposing). I doubt if the directors of the ninth Federal reserve district would father any policy that would tend to force farmers to liquidate against their own best interests. That is, I mean, a policy which would tend to force them to sell and limit their production—for the sake of liquidation—the development of young live stock and immature stuff. I think the policy of our directors would be to foster and help the development and growth of that business rather than to force the farmers to sell that kind of stock to liquidate their indebtedness, if possible for them to do so. They come from every part of the Federal reserve district; there is one from Michigan, two from North Dakota, one from Wisconsin, and one from Montana, and four from Minnesota, all parts of the district, and I know when they get together—and I have opportunity to know, because I am secretary of the board—they discuss these very questions, of how they can encourage and assist these farmers in these very things.

I know that not long ago we were very much concerned about wool. It was a very serious problem. Out in Montana there is a great deal of wool grown, as you know, and the wool buyers were there when I was out there, but before I left there was not a wool buyer left in Montana or a place where a man could go to market his wool. It is a very serious proposition for a man to grow his crop, and come up to the marketing period and then find that there is not any market for it. They simply could not sell it. Perhaps there were other situations in the country that were similar. Perhaps cotton had some of the same sort of a problem. And when agricultural prices and farm produce began to drop, the farmers had their troubles. Here was a farmer who had a debt which it would take 100 bushels of wheat to liquidate, and to-day he could not liquidate it except with 200 bushels of wheat. That is naturally very serious.

Representative SUMNERS. I know the delicacy and difficulty in handling the situation. But it seems to me, in view of the statements that have been given out by the Federal Reserve Board cautioning the people, at least indirectly—in view of those statements, and in view of our present situation, that you gentlemen might now begin to give out some statements on the other side of this proposition.

Mr. Mosher. Speaking for our district, I do not think any pessimistic statements have issued from our bank. In fact, I think the tone of our statements has been that we are working out of these difficulties. It is going to be very slow, and it is going to require good horse sense, and everybody must economize and put his shoulder to the wheel, but we will eventually work out. I know that the chairman recently issued a statement in which he expressed himself definitely as being of the opinion that these are temporary difficulties that are ahead of us. There is in the Northwest great possibilities of prosperity, and I believe in it.

Representative Sumners. And the quicker you can get the people to believe in it the quicker it will be here.

Mr. Mosher. Yes; and there are out in that country great tracts of fertile land, and there has not been much inflation. I suppose a man could go into North Dakota and buy land to-day at what it was worth three years ago. That same is true in some parts of Montana and in a great part of South Dakota, except in the southern part where it was affected somewhat by the land boom in Iowa. But a man can buy land very much cheaper there than he can buy in Iowa or Indiana, and there isn't any reason to believe that those opportunities are going to be neglected forever. Somebody is going to get those lands. It seems to me the best thing to do for a period of prosperity is to get rid of these figures over here [indicating].

Representative Sumners. Provided you do not get rid of your "she" stuff and young stock?

Mr. Mosher. I do not think our bank will countenance any situation of that sort. We want our cattle. Our live-stock situation is serious. Montana is short 225,000 cattle.

Representative Sumners. I think it would be wise to increase those figures, and keep those cattle on grass.

Mr. Mosher. At the present time there is no provision whereby we can furnish the money to restock Montana with cattle and rediscount the paper with the Federal reserve banks. As I said before, it is a two-year proposition, usually, and the Federal reserve banks can not handle it. I think it would be a profitable thing to do. I think so far as our directors are concerned, they would like to do all they can for the agricultural situation, but there is no provision of law that would permit us to take care of that kind of a situation, unless, as I mentioned before, we could take care of the last six months of the period, by taking the paper and rediscounting it at that time.

The Chairman. Is the Federal reserve bank borrowing now?

Mr. Mosher. We are borrowing $10,000,000 from other Federal reserve banks.

The Chairman. That is less than you were borrowing a month ago?

Mr. Mosher. Slightly less; yes.

The Chairman. Senator Capper, do you wish to ask any questions?

Senator Capper. Do you think now that the intermediate system that the chairman speaks of could be handled through the Federal reserve banks?

Mr. Mosher. I would express an opinion as I expressed it before, personally. My personal opinion is that I do not think that it is appropriate to put long credits into the reserve banks. I do not

think that it is well for you to mix your long and your short term business, especially when you have two separate and distinct mechanisms, one especially created for the purpose of handling long-term credits and the other definitely and especially created to care for nothing but short-term credit.

Senator CAPPER. I believe that the chairman suggested that the local banks should handle this, so far as the dealing with the borrower is concerned; but I am wondering whether the Federal reserve banks or the farm loan banks would be the best channel of disposing of that paper.

Mr. MOSHER. Well, a question of that sort could be determined, of course, after a consultation and discussion among the executives of the Federal reserve system. What their judgment might be I would not be able to tell you, of course.

As a personal opinion, I rather think in our district the opinion would be that we would prefer that we should remain in our appropriate field of short credits, and would not care to engage in an entirely different program.

Senator CAPPER. The Farm Loan Board, of course, has the advantage of dealing every day with the problem of agricultural credits—that is, they touch the farmers and stockmen.

Mr. MOSHER. They deal with purely agricultural credit.

Senator CAPPER. In a way that the Federal Reserve Board does not, and in that respect there would be some advantage to having it handled through the Farm Loan Board, because it has a local organization in every farming community of the country. That would be almost necessary in any proposition of this kind.

Mr. MOSHER. Well, the Federal reserve bank has no organization outside of its own head offices and the branches. Of course, it has members, but the Farm Loan Board—I mean from the standpoint of real effectiveness—is able to get more accurate information at the present time. Whether the same relation could be built up by the Federal reserve bank is a question that, I think, should be studied with great care.

Senator CAPPER. To my mind this question of intermediate credit for the producer is a big problem, not only now with the agricultural credit, not only so far as this present emergency is concerned, but as a permanent proposition.

I have talked with the State bankers out in our country and Federal reserve bankers, and they all admit that there is a place there that is not taken care of by the present banking system.

Mr. MOSHER. It is a pretty big question and would require a great deal of careful study and careful consideration before anyone could determine, I imagine, what would be the logical or appropriate thing, but I quite agree that there seems to be demands for a certain kind of credit—very insistent demands—I know that I run across them every time I go out among farmers—that the law does not permit us, does not permit the Federal reserve banks, to cover without altering a mechanism that has been very carefully constructed and which does not provide for that kind of credit.

Possibly there are other and better ways that could be developed after close study of the problems than by transferring it to the Federal reserve banks.

Senator CAPPER. There is a strong objection here in Washington and in the country generally to creating any new governmental agencies, and in working out this problem of intermediate credits it seems to me that we ought to try to make use of the machinery that we now have.

Mr. MOSHER. I should think that we can. Perhaps your own suggestion that the farm-loan system, which devotes itself entirely to agricultural production, with its corps of appraisers and investigators in the field constantly, and with very intimate connection with all phases of that question, would be a more appropriate sort of body to supervise things of that sort than the Federal reserve system, which by the law has other credits to take care of, not only agricultural credits, but commercial and industrial as well.

The CHAIRMAN. If there are no further questions, we are very much obliged to you, Mr. Mosher.

(Whereupon, at 4 o'clock and 35 minutes p. m., the commission adjourned to meet at 10 o'clock a. m. Tuesday, August 16, 1921.)

AGRICULTURAL INQUIRY.

TUESDAY, AUGUST 16, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met, pursuant to adjournment taken on yesterday, at 10 o'clock a. m., in room 70, Capitol Building, Representative Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. The commission this morning will hear Mr. C. H. Gustafson, president of the United States Grain Growers (Inc.).

Mr. Gustafson, will you give your name and the organizations which you represent and your address to the reporter, so that we may get it into the record?

STATEMENT OF MR. C. H. GUSTAFSON, PRESIDENT OF THE UNITED STATES GRAIN GROWERS (INC.), AND DIRECTOR OF MARKETING OF THE AMERICAN FARM BUREAU FEDERATION, CHICAGO, ILL.

Mr. GUSTAFSON. Mr. Chairman and gentlemen of the commission, my name is C. H. Gustafson. My home is in Lincoln, Nebr.; my office is in Chicago, Ill. I am president of the United States Grain Growers (Inc.); also director of marketing of the American Farm Bureau Federation.

The CHAIRMAN. Mr. Gustafson, you are, I think, in a general way familiar with the investigation which the commission is making. I would be very glad if you would develop in your own way information that you think will be helpful to the commission in arriving at a conclusion with respect to the matters that it is considering.

Mr. GUSTAFSON. Mr. Chairman, I prepared a statement that I had expected to have read into the record if I had been unable to come. I do not think it is worth while this morning to take up your time by reading that statement, and my oral statement will be very brief. I think more detailed information, probably, will be brought out by questions asked by the members of the commission, and I am willing to answer any and all questions that I possibly can.

The United States Grain Growers (Inc.) is the result of the recommendations made by what is known as the Farmers' Marketing Committee of Seventeen. This committee was appointed last fall by the American Farm Bureau Federation. Its membership was composed of representative farm leaders, from among the largest farm organizations in the United States. After seven months of careful investigation and hearings and information gathered from all parts of the world as to conditions of marketing, as to results of farmers' organizations

and cooperative marketing schemes, the best that the committee could get out of the different organizations was crystallized into a recommendation which was adopted or approved at the national meeting held in Chicago April 6, 7, and 8.

The CHAIRMAN. 1920?

Mr. GUSTAFSON. This year, 1921.

The CHAIRMAN. In 1921?

Mr. GUSTAFSON. Yes, sir. At this conference were 103 delegates selected by the leading farm organizations of some 25 of the main grain-producing States of the United States. A board of 21 directors was selected. On this board of directors of the United States Grain Growers (Inc.) are representatives of the leading farm organizations and marketing organizations.

The plan provides for complete handling of the farmers' grain from the farm to the miller and the exporter. It is a nonstock, nonprofit organization, incorporated under the laws of Delaware, and any farmer, any producer of grain, or any owner of land receiving grain rent is eligible to membership. The membership fee is $10, and that entitles one to a membership for life. There are no other assessments; can be no other assessments. With that membership the farmer and producer is requested and obliged, if he joins, to sign a 5-year contract with the United States Grain Growers (Inc.) to deliver to it all grain that is shipped out of the community where it is produced—not the grain that he uses for seed or feed or what he might market to his local mill for local consumption.

The purpose of our organization is to handle the grain all the way from the local elevator or terminal through a national sales agency. The local cooperative elevator is the foundation of this whole plan, and a contract is also signed with those elevators that all grain delivered to those elevators by our members is in turn shipped to us by such elevators.

We are a nonstock, nonprofit concern and intend to do business at cost. If there are any profits accruing, they will be prorated back; but our purpose is to sell grain to the best advantage and deduct the handling charges and return to the producer the full amount received.

In connection with this plan we contemplate some financial arrangement, which is very necessary, and which the farmer is very much in need of at this time, so that we may be able to more orderly market the grain than is the case at the present time.

There is nothing in this plan of a socialistic nature, and we ask for no privileges of any kind, either through State legislatures or Congress. We ask for no appropriation of Federal or State money of any kind. It is strictly a farmer-owned and controlled cooperative movement. We ask no favors. We do not ask that our competitors step out of the way. We intend that this shall be an honest competition with the present system, which is not satisfactory to the producer. We do not ask Congress or a State legislature to legislate anybody engaged in such business out of existence. If our system is not able to compete with the present system, that will be our lookout, and we will not succeed. If, on the other hand, our system succeeds and is better, more economical, more satisfactory to the producer, then we claim it is the right kind of competition of which we boast so much in this country.

The CHAIRMAN. Let me ask whether you expect to sell grain through the channel of the exchanges, or direct to the mills?

Mr. GUSTAFSON. There are many details of this plan that are not permanently worked out, Mr. Chairman, and we will sell to the best advantage. Ultimately, of course, we do not expect to have to sell through existing exchanges. But at the present time it might become necessary to use those facilities, provided we are permitted to do so. However, with our present arrangements we would not be admitted to membership to any of the exchanges, with a cooperative arrangement retained. In fact, I have applied for membership on an exchange and have been turned down on that account.

I do not know, Mr. Chairman, that I have any further statement to make at the present time. I have briefly outlined the plan, and would welcome questions to further develop the plan.

The CHAIRMAN. How much grain, approximately, will your contracts call for this year?

Mr. GUSTAFSON. Why, we are just starting, and the membership drive has just recently commenced. We have to-day something over 4,000 farmers signed up, but we have just started, and in some of the States we have not started at all as yet. We are getting ready.

The CHAIRMAN. Your organization is not complete then, from the standpoint of contracts with the farmers?

Mr. GUSTAFSON. No, sir; just the main part of it is more or less completed. But the membership drive is just started, has only started in a few States.

The CHAIRMAN. In your investigation preceding organization of the United States Grain Growers (Inc.), did you get any figures tending to show what the cost of marketing grain through existing agencies is?

Mr. GUSTAFSON. I do not have, I believe, exact figures, but we found very unsatisfactory conditions. At least, the farmer feels that way about it. We found that 72 per cent of our grain, as an average, is marketed within 90 days from harvest time. We found that grain is sold and resold about 50 times on the Chicago Board of Trade. In other words, there is three times as much grain as is produced in the world sold on the Chicago Board of Trade in a year. We do not believe that that is economical; we do not believe that that is to the best advantage of the producer or the consumer.

The CHAIRMAN. Did your investigation tend to show whether the economic cost of this sale on the exchanges was borne by the producer or by the occasional speculator on the market?

Mr. GUSTAFSON. We think the producer is the goat all the time. We think "Jones pays the freight."

Senator McNARY. Has not that situation been cured so far as it can be legislatively, by what is known as the future trading act, which I signed as one of the conferees of the Senate yesterday, and which will probably become a law during to-day? I think you were at the hearings in the Senate.

Mr. GUSTAFSON. We do not know how much that bill will cure, and as to the United States Grain Growers (Inc.), we do not care very much, because we do not feel that it will be a permanent cure anyway. And we do not feel that we would like to leave the marketing of our products to these people any longer. I made a statement just before you came in that we are not asking for any class legisla-

tion or any class favors of any kind, or appropriation of publi moneys of any kind. We are strictly a farmer-owned organizatio

Senator McNARY. What is the organization?

Mr. GUSTAFSON. The United States Grain Growers (Inc.).

Senator McNARY. Growing out of the committee of seventeen?

Mr. GUSTAFSON. Yes, sir.

Senator McNARY. Under this bill you seek to be denominated contract market by the Secretary of Agriculture and to get on th exchange?

Mr. GUSTAFSON. Well, we probably will; I don't know.

Senator McNARY. You are purely cooperative?

Mr. GUSTAFSON. We are intending to be purely cooperative.

Senator McNARY. And are intending to prorate the profits to you members?

Mr. GUSTAFSON. Yes, sir.

Senator McNARY. And pay dividends?

Mr. GUSTAFSON. Yes, sir.

Senator McNARY. Do you pay commissions?

Mr. GUSTAFSON. We call that prorata.

Senator McNARY. There is a decided difference, so far as that goe I do not want to go back over this, but I am somewhat interested i view of the long hearings we have had in the Senate. You say yo do not care for further legislation?

Mr. GUSTAFSON. Well, sometimes I feel this way about it: Le these people go the limit, until they arouse the farmers to the necessit of helping themselves. There is no remedy like that; the farme helping himself is the best remedy.

We do not want to discredit or discourage legislation, but th United States Grain Growers (Inc.) is not asking for class legislatio The only thing we do ask is that the farmers be given the sam opportunity as anybody else; that is, that no obstacle be thrown into the way of a development of this cooperative idea. And whe we ask for that we ask it for all the people, and not for the farmer alone. And when we ask for any legislation that will promot cooperation, we want the consumer and we want every citizen of th United States to have the same opportunity as the farmer to ge any such legislation or to be under such arrangements. We ar absolutely wanting to play fair and be unselfish in that matter.

Representative FUNK. Does your plan for the marketing of grai provide for an advance to the owner of the grain?

Mr. GUSTAFSON. Yes, sir; as soon as we can make the necessar financial arrangements, we propose to advance what will be con sidered safe.

Representative FUNK. That is, on some sort of a warehouse cer tificate or receipt?

Mr. GUSTAFSON. Yes, sir.

Representative FUNK. Or some such scheme as that?

Mr. GUSTAFSON. Yes, sir.

Representative FUNK. Which the owner of the grain can take to the bank, or some other place, and put it up as collateral?

Mr. GUSTAFSON. Yes, sir.

The CHAIRMAN. You expect that the farmer will do the financing of his own receipts, or that this financing will be done through an organization which you will establish?

Mr. GUSTAFSON. Ultimately we hope that the farmer will be able to arrange for his own financing and be independent along those lines, as are other large interests and producers, such as large manufacturing concerns, which have satisfactory finances which they can always rely upon. Ultimately we hope the farmer may make the same arrangement for himself.

The CHAIRMAN. You mean the individual farmer?

Mr. GUSTAFSON. Yes; cooperating together in some organization. This can very readily be done, Mr. Chairman, if the farmers will get together. It would not be a very large effort for each one.

Representative FUNK. Is it the idea that this grain will remain on the farm, or can it be collected at some terminal point?

Mr. GUSTAFSON. I am not so strong on keeping the grain on the farm. I think it is a pretty hazardous undertaking. At the present time we contemplate collecting into our local elevators what the farmer has to sell. Understand, under this arrangement the farmer does not have to sell until he gets ready; he will sell whenever he wants to sell, and will not be compelled to sell until he gets ready to sell.

Representative FUNK. He can select the market for himself, and can take the price on any given day?

Mr. GUSTAFSON. Yes; but when he does sell he sells through the organization.

Representative FUNK. Of course, it would be impossible to keep each particular grain owner's grain separate?

Mr. GUSTAFSON. That is not necessary.

Representative FUNK. Well, it could not be done as a practicable proposition, on a large scale?

Mr. GUSTAFSON. No; it would not be possible.

Representative FUNK. Then, of course, there must be some method of determining the grades?

Mr. GUSTAFSON. Yes, sir.

Representative FUNK. That can be taken care of at the terminal markets.

Mr. GUSTAFSON. We hope so.

Representative FUNK. But I am interested in finding out how you determine the grade at the country station.

Mr. GUSTAFSON. That is determined by the buyer; by the elevator manager, as it is now. He determines the grade now, and he will continue to do so.

Representative FUNK. But where it is loaded not through an elevator you have some scheme of that sort?

Mr. GUSTAFSON. There is very little of that being done, and we do not encourage that. We encourage the building and maintaining of cooperative elevators at all points.

Representative FUNK. And the grade assigned by the managers of the local elevator will be the grade——

Mr. GUSTAFSON (interposing). Yes; that is the way it is now.

Representative FUNK. For the purpose of ultimately determining the pro rata share of each grain grower's grain, or determining what he will be able to borrow?

Mr. GUSTAFSON. That is being done now, and that will be continued.

Senator McNARY. Does your association advance money on a gr pool to the members?

Mr. GUSTAFSON. The grain pool is optional. We do not urge Anyone desiring to pool may do so, and the idea of the pooler that part of the money shall be advanced, and then the money w be paid when the ultimate sale is made. Our organization perm that, but it does not urge it.

Senator McNARY. All sums are returnable to the members, exce that which is used in the management of the organization?

Mr. GUSTAFSON. Yes; and that will be very economically do because there is no capital stock to pay interest on.

The CHAIRMAN. When the farmer sells to the United Sta Grain Growers (Inc.), at what price does he sell?

Mr. GUSTAFSON. At the market price. To make it plainer, sells to the local elevator the same as he does now, receiving t regular price. Then at the end of the year the local elevator w return his pro rata share.

Representative FUNK. The deal is closed immediately, just soon as the accounts are obtainable?

Mr. GUSTAFSON. Yes; just as it is now. However, we hope make the necessary arrangements to encourage the farmer not dump at certain periods of the year so much grain on the mark and get it out of his control and out of his hands and into the han of the speculator and manipulator.

The CHAIRMAN. If the exchanges were abolished, as I suppose ultimately involved in the success of the cooperative plan, how w the price be fixed?

Mr. GUSTAFSON. Well, they will not be abolished for a long tim We hardly can expect that this will be adopted by all the produce and as long as it is not, the exchanges will be in existence. An should they be abolished, we hope we will find a way out of it b that time; but they will not be abolished for a long time to come.

The CHAIRMAN. What you expect to do is to set up a system marketing in competition with the exchanges?

Mr. GUSTAFSON. Yes, sir.

The CHAIRMAN. Which, in the long run, will develop into a que tion of whether the exchange method or the method you are proposin is the most economical method from the farmers' standpoint?

Mr. GUSTAFSON. Then, if we should get all the business we woul become the exchange, because we are selling to the consumer and t the mills and to the exporter, and perform all the functions and duti or all the work that they are now doing. But it will be a long tim I imagine, before that would happen; but if it does happen, wha would be wrong with it?

The CHAIRMAN. I am not assuming that anything would be wron with it. I am trying to get at the operation of the thing. I assum that in the adoption of a plan of this sort you have undertaken t take a long look ahead?

Mr. GUSTAFSON. Yes.

The CHAIRMAN. And see, so far as it is humanly possible, the ulti mate outcome of the proposition. I do not just get what you mea when you say that the United States Grain Growers (Inc.) wil become the exchange, because I assume that one of the objects o this arrangement is to reduce the number of intervening buyers an

speculators whose trading now goes to make the market price, and when you reduce that number of traders or speculators it seems that the price would be made on the basis of a smaller number of sales.

Mr. GUSTAFSON. Well, who should make the price?

The CHAIRMAN. I do not know.

Mr. GUSTAFSON. Why, I expect the consumer; but he does not make the price now. The exchanges are making the prices to suit themselves, which we do not think is the right system. And there is interference with the law of supply and demand, and we feel that if this was done right the law of supply and demand would govern, and it is the only law in the ultimate end that we can rely on anyway.

The CHAIRMAN. That is to say, the number of consumers in the market, and the demand which they represented, in its relation to the supply would make the market price, just as it does on coal, or on anything else?

Mr. GUSTAFSON. And handling world products, as we expect to do, which are produced all over the world, we would continue to be in competition with the outside world anyway, and we would have to rely on the demand. If we were the only exchange that was handling grain in the United States, we would absolutely have to rely on the demand for that grain and sell accordingly.

The CHAIRMAN. That is to say, you would have to market the grain at such times and in such quantities as the supply necessitated, keeping in mind that you had to sell the entire crop every year?

Mr. GUSTAFSON. With this plan of ours goes also an information department, through which we expect to gather crop and market conditions in our own way from all over the world, and try to give to the producer a more correct interpretation of those figures and conditions than they are getting at the present time, which we think will be helpful to the farmer in judging when to sell. And the reports which we get at the present time are not satisfactory to the farmer, and the farmer does not rely on them like he should. He does not get the information that makes it possible for him to be a good business man in judging what he should sell.

Now, this is not an experiment, gentlemen. It might be in a national way, but it is not in a local or a State way, because we have had cooperative elevators for some 20 or 25 years, and they have been a wonderful success. In the last year or two they have been in bad, just as many of the other elevators are; many of the privately owned and line elevators have been in bad for the last two years, and so have the cooperatives. But although they have been in bad, there are not many of them that are intending to quit.

Efforts have been made to extend this local cooperation to the terminal markets, and progress has been made, and some success has been obtained.

I am very familiar with the marketing of live stock, if I may mention that in connection with this matter.

Representative SUMNERS. Before you go to the subject of live stock, I would like to ask you some questions about the grain marketing proposition.

Mr. GUSTAFSON. I will come right back to that. I want to say this, that we are not jumping into this without some experience along the line. I speak of this live-stock marketing proposition because I was chairman of the committee that organized it, and president of

the association up until the 13th day of April of this year. On Apr 1, 1917, we opened a cooperative live-stock commission company a Omaha, giving the regular service and charging the regular com missions and paying the regular salaries for the hired help necessary and it was a nonstock, nonprofit concern; there was no interest t pay on the investment, and at the end of the year we prorated bac to the customers the profits, or the savings, rather. Of course, th first few months it was a losing proposition, because the oppositio was very bitter. I might state that we applied for membership o the live-stock exchange, but we were turned down. But before th end of the year we had accumulated savings enough to prorate bac 38 per cent of the commissions charged; at the end of the second yea we prorated back 46 per cent of the commissions charged; and th last two years we have prorated back half of the commissions charged and this year the prospects are, if we continue as well from now on a we have the first part of the year, we will do even better.

The CHAIRMAN. Did any part of the prorate represent increases i markets?

Mr. GUSTAFSON. No, sir; it is strictly commission.

The CHAIRMAN. Strictly a commission proposition?

Mr. GUSTAFSON. Strictly commission. We charge the same com mission as the other firms. There are 51 firms in the yards beside ours at Omaha. We also have branches at St. Joseph, Mo., and Siou City, Iowa. But it is strictly the commission that is prorated back In other words, if you pay us $15 for the selling of a car of live stock in the last two years you would have received back $7.50.

Now, that is a nonstock, nonprofit concern, and our salesmen ge a regular salary, and so do our hired help. There is no prorating o commissions or rebates to our help of any kind, and the necessary expenses are deducted and the producer gets the balance.

Senator LENROOT. How did you get your capital?

Mr. GUSTAFSON. We did not need any. We needed a little, and we borrowed $1,000 to establish an office and buy a typewriter and a desk.

Senator MCNARY. Are yours purely cooperative members or patron age members?

Mr. GUSTAFSON. They are members of farmers' organizations and farmers' associations, the Equity, and so on.

Senator MCNARY. Do you do business with any patrons outside of your membership?

Mr. GUSTAFSON. Yes; anybody that wishes to do business with us

Senator MCNARY. Do you prorate your commissions to them too?

Mr. GUSTAFSON. No; why should we?

Senator MCNARY. I want to get the relation between the patron and the member. How do you do that?

Mr. GUSTAFSON. Which?

Senator MCNARY. Your dealings with the patron who is not a member?

Mr. GUSTAFSON. He is welcome to come to us if he wants to.

Senator MCNARY. But you do not prorate your commissions to him?

Mr. GUSTAFSON. No.

Senator MCNARY. What advantage does he derive from being a patron of your association?

Mr. GUSTAFSON. He generally gets converted and becomes a member of the organization.

Senator LENROOT. So until he does become a member he is the same as any other man?

Mr. GUSTAFSON. Yes, sir.

Senator MCNARY. So he is simply a patron until he does become a member?

Mr. GUSTAFSON. Yes; he has no privileges or rights as a member until he does become a member.

Senator MCNARY. Are your particular clients the packers; the five big packers?

Mr. GUSTAFSON. Yes, sir.

Senator MCNARY. You sell your live stock to them?

Mr. GUSTAFSON. We sell practically all of our fat live stock to them.

Senator MCNARY. And do you do any feeding?

Mr. GUSTAFSON. Some of them do.

Senator MCNARY. Do you do any feeding yourselves?

Mr. GUSTAFSON. No, sir.

Senator MCNARY. Only marketing?

Mr. GUSTAFSON. It is strictly a marketing company.

The CHAIRMAN. Do these packers discriminate in any way against you?

Mr. GUSTAFSON. No, sir; they have played fair with us all the time.

Senator LENROOT. They did from the start?

Mr. GUSTAFSON. Yes; in fact I inquired whether they would before we started, and they said they would. The stockyards, the same way. They could not afford to do otherwise.

Representative FUNK. What percentage of the business transacted in Omaha—the commission business—is done by your organization?

Mr. GUSTAFSON. When we started there were 51 firms on the yards, and I think they are all there, as I remember. The last report I had was a monthly report, and we had sold 262 cars more than the next highest firm—such firms as Clay, Robinson & Co.—and we had sold 262 cars more in our business than they had; than the next nearest firm. Our business runs into $40,000,000 or $50,000,000 a year.

Senator LENROOT. What territory do you cover?

Mr. GUSTAFSON. We draw from Nebraska, Kansas, Missouri, Iowa, South Dakota, Wyoming, Montana, and Colorado.

Senator LENROOT. A very large territory.

Mr. GUSTAFSON. And a little from southwestern Minnesota.

The CHAIRMAN. Do you have a commission agency at South St. Paul?

Mr. GUSTAFSON. No; there is a similar one there, but we are not connected with it; there are two, in fact, one called the Equity Cooperative Exchange and the other a Farm Bureau commission company.

The CHAIRMAN. Are they admitted to the live-stock exchange at St. Paul?

Mr. GUSTAFSON. I am not sure of that now. I think you had some legislation up there last winter on that subject.

The CHAIRMAN. We had some legislation on the subject, but I was not sure whether it would be adopted without a contest in the courts. I did not know whether they were admitted or not.

Mr. GUSTAFSON. I don't know. Now, in addition to making application for a membership on the live-stock exchange at Omaha, I applied at St. Joseph and Sioux City, and they turned us down. We were turned down because we were a pro rata organization. We have been discriminated against by these people very bitterly, but we pay very little attention to it. Sometimes some of their members have tried to do business with us, and they have been fined for doing so.

Senator MCNARY. If you prorated your commissions and not your profits, they would not be fined for that?

Mr. GUSTAFSON. I don't know. We haven't any profit.

Senator LENROOT. What is the difference?

Senator MCNARY. There is considerable difference. The commission is a profit for doing business on the board.

Mr. GUSTAFSON. That is all we do.

Senator MCNARY. I asked you whether you prorated your commissions and expenses, distinctly apart from the profits?

Mr. GUSTAFSON. We haven't any profits.

Senator MCNARY. There are three or four different kinds of cooperatives.

Mr. GUSTAFSON. That prorate the profits?

Senator LENROOT. You prorate the commissions that you have charged?

Mr. GUSTAFSON. Yes, sir; we prorate the commissions which we have charged.

Representative FUNK. The sum that is prorated is what is left after the expenses are deducted?

Mr. GUSTAFSON. Yes; if you were to pay us $15, for instance, for selling a car of live stock, at the end of the year we find it has cost $7.50 for that, and we pay you $7.50 back.

Representative FUNK. And that is profit?

Mr. GUSTAFSON. We call it savings.

Representative FUNK. Do your members consider that they get any advantage by using your agency other than through the pro rating of the profits?

Mr. GUSTAFSON. No; other than this: We are getting a lot of information and will be getting together on a larger scale further on. But financially there is no other advantage.

Representative FUNK. What I mean is salesmanship and higher prices.

Mr. GUSTAFSON. We have continually watched our salesmen and compared their sales with the sales of the yard, and we find we are always up to the others, and once in a while ahead of them, so our salesmen make as good sales as anybody. We have been watching that.

Senator LENROOT. Will you tell us what the objections of the live stock exchanges were; because you prorated your profits?

Mr. GUSTAFSON. The objections are these, I think, that we have demonstrated that it can be done for much less money than the old system, and they do not dare come out and compete with us on the old idea. That is the objection.

Senator LENROOT. On the grain exchanges, we were told they were intending to prorate according to the business done; that is not the case with your organization?

Mr. GUSTAFSON. That is the case with the live stock.

Senator McNARY. They do not prorate on the grain; that is the difference.

Mr. GUSTAFSON. We feel that there can be money saved in handling live stock, and there can be money saved in handling other farm products. I know there can.

It does not make any difference to the United States Grain Growers whether you are a farmer, or a man who rents his farm on grain rent, or whether you are a Democrat or a Republican or a Methodist or a Presbyterian——

Senator LENROOT. Or not a member of any other organization?

Mr. GUSTAFSON. No, sir; but a grain producer who raises grain, or receives grain rent.

The CHAIRMAN. Your membership then is based on individuals, and not on cooperative organizations?

Mr. GUSTAFSON. Absolutely.

Representative SUMNERS. What is the advantage which you would be able to derive from a membership in these live-stock exchanges?

Mr. GUSTAFSON. Well, there are certain accommodations there that would be available that we had to go out and get for ourselves; such, for instance, as the docker. They have an official docker; they would not even permit us the use of that service, though we offered to pay for it, so we had to arrange for our own docking. There are other advantages. And, by the way, they are not permitted to do business with us; we can not buy and sell stockers or feeders to them. The rules will not permit them to do that. If we were members of the stock exchange, we would do that. But they are not allowed to play with us at all.

Senator LENROOT. Is it one of their rules that no cooperative organization can be a member of the live-stock exchange?

Mr. GUSTAFSON. If it is a patronage dividend-paying organization it can not be.

Senator LENROOT. That is irrespective of whether the dividends are confined to the members of the association or not?

Mr. GUSTAFSON. It does not make any difference, or did not at that time.

Senator LENROOT. Does it now?

Mr. GUSTAFSON. I don't think so. I don't think there is any change.

Senator LENROOT. And that is in their rules?

Mr. GUSTAFSON. Oh, yes.

Senator LENROOT. Have you a copy of those rules?

Mr. GUSTAFSON. I have them in my office.

Senator LENROOT. Will you send us a copy of them?

Mr. GUSTAFSON. Yes, sir.

The CHAIRMAN. I think I have a copy of them here, Senator.

Mr. GUSTAFSON. Now, I made application for a membership on the Omaha Grain Exchange, and there was the same trouble there; on account of being cooperative and paying patronage dividend we were refused membership.

Senator LENROOT. You said it was cooperative; cooperative and distribution of earnings. I can not see the difference, Mr. Gustafson, between an ordinary dividend to cover profits and the ordinary commission firm that is in the form of a corporation and distributes its dividends to its stockholders.

Mr. GUSTAFSON. Well, I don't think they would permit either one, and we are not ready to change our ideas and rules to conform to their rules.

Senator LENROOT. No; I was getting at whether there was any basis or reason in their discrimination.

Mr. GUSTAFSON. It is simply this, that they do not want to recognize our way of doing business.

Senator LENROOT. In other words, they are afraid you will get the business and throw out the commission firms?

Mr. GUSTAFSON. We generally do where we do business in a businesslike manner.

Representative SUMNERS. Do you have an organization in your live-stock business which extends down to the community, so that the communities themselves have live-stock shipping associations and through which they may assemble their live-stock in carload lots?

Mr. GUSTAFSON. Yes; in many communities there are such arrangements. In others there are not, and the farmers simply get together with their stock.

Representative SUMNERS. Is it the disposition of the communities to organize once they have begun to use this service?

Mr. GUSTAFSON. Oh, yes; there are organizations springing up now.

Representative SUMNERS. That works better, I assume, than where you have a number of live-stock producers in a community shipping independently?

Mr. GUSTAFSON. It does facilitate the handling of it very much.

Representative SUMNERS. If some of the gentlemen who come from that territory do not want to ask further questions about the handling of grain, I would like to ask some questions. I am not from the grain section, however.

Mr. GUSTAFSON. I might add, in connection with this United States Grain Growers (Inc.) marketing agency, that they are now developing a live-stock marketing agency also, through a committee of 15 which has been working for about six months, and is still working and making progress.

Representative SUMNERS. In your live-stock distribution, do you undertake to route these animals ready for market to the markets where they are in best demand?

Mr. GUSTAFSON. Well, not to a great extent, but if we become organized nationally, that is one of the objects we have in mind. We do once in a while divert shipments from Omaha to St. Joseph, for instance, if it is advisable to do so; but not a great deal of that is being done yet, because it can not be advantageously done until we have a national organization.

Representative SUMNERS. No; I appreciate that.

Mr. GUSTAFSON. No, sir.

Representative SUMNERS. Now, coming back to the marketing of grain, you start in with your local elevator as a unit?

Mr. GUSTAFSON. That is the foundation; that is the unit which we start from.

Representative SUMNERS. And when the grain is brought into the local elevator by the several farmers in a community it is graded, and goes into the bin or compartment where grain of that grade is being kept?

Mr. GUSTAFSON. Yes; as it is being done now.

Representative SUMNERS. Some of the millers who have been before the commission have stated that they are not able to buy grain on grade for grinding in their respective mills, because of the fact that from the miller's standpoint there is so much difference in the grain of the same grade. If that is true, how are the millers able to select the grain after the grain has been confused and mixed in the local elevator, and then, I assume, mixed further in the terminal elevator?

Mr. GUSTAFSON. I understand that the big mills have their analyzers to determine certain districts in the country where preferable wheat can be gotten, and that they make a very decided effort to get that wheat year after year. I think that is true of Kansas and other States, where the Minneapolis millers have found by investigation that certain communities produce desirable wheat. I am not a miller and can not go into the technical part of that.

Representative SUMNERS. You stated a moment ago that there is sold in Chicago on the future board three times the amount in bushels of grain each year produced in the world.

Mr. GUSTAFSON. That is what our investigators found, that were working with the Committee of Seventeen. We had several very high-type men doing that work.

Representative SUMNERS. What is the charge made by the members of the exchange, per 1,000 bushels, for handling a transaction of that kind?

Mr. GUSTAFSON. I don't know what the exact charges are. I wish it was possible for this commission, however, to tell the world what they are.

Senator LENROOT. You mean you do not know the commission per 1,000 bushels?

Mr. GUSTAFSON. At Chicago?

Senator LENROOT. Yes.

Mr. GUSTAFSON. I don't remember.

Representative FUNK. You are speaking, Mr. Sumners, of a cash transaction, or an option deal?

Representative SUMNERS. I assume the commission is the same.

Representative FUNK. No; cash transactions at Chicago are 1 per cent.

Representative SUMNERS. What are they in a future transaction?

Representative FUNK. I think one-eighth.

Representative SUMNERS. One-eighth of 1 cent per bushel.

Representative FUNK. Yes.

Representative SUMNERS. Of course, somewhere down the line somebody has to pay that enormous hedging charge.

Mr. GUSTAFSON. We think the producer does.

Representative FUNK. On an option transaction it is like a kitty in a game of cards; they keep taking it down, and keep putting in money all the time.

Mr. GUSTAFSON. What we farmers and producers can not understand is why it is necessary to speculate and gamble, if I may use that term, with the farmer's products. Why is that not done with shoes, and farm implements, and groceries, and things of that sort? Why pick out one product? We can not understand why, if it is a good thing with the grain, why not do it with shoes, and farm machinery, and sell it fifty times before the consumer gets it.

Representative SUMNERS. Some of the millers have testified that in doing their business they sell their flour in advance of the grinding of the wheat into the flour which is to be made. After having sold the flour, it is then necessary for them to buy a hedge on some future board to be certain that they will make a manufacturer's profit.

Mr. GUSTAFSON. We producers do not feel that the present custom and arrangement for handling our grain is proper; we do not feel that it is the only possible way of doing it, any more than I felt when I was a little boy that binding grain behind the reaper was the only way to be followed in doing that work. And since then we have developed several useful inventions that have done away with that method. It is just possible that some arrangement might be developed in handling the farmer's grain which is better than the present system; just because it is the custom or system, we do not think it is the only way to do it. And we feel there is need of improvement in the marketing line as much as there is need for improvement of anything in this line.

Representative SUMNERS. You feel, I assume, that the violent fluctuations in prices resulting, as I understand you gentlemen claim, from speculation on the future boards, has a tendency to demoralize the market and make economical distribution more difficult than it would be without those influences in the market.

Mr. GUSTAFSON. We feel that it is only to the advantage of the unnecessary middleman, or a lot of unnecessary middlemen, and is of no advantage to the consumer.

Now, as to the cost of handling our products, I assume that the commission has been overloaded with testimony of that kind. It would be consuming time to go over that again. I might say, however, I made some personal investigations, if you will permit me a moment. I think it was some time in 1918 that I was in Kansas City on some marketing work, and then made this little observation. Wheat at that time was selling at about $2. That was about twice the price that wheat was before the war. In the same time crackers had risen four times the former prices. In other words, they had beat wheat twice. During 1918 I purposely went to one of the best eating houses in Omaha to eat a meal—to buy a meal, and see what the middleman was getting. It so happened that I picked on potatoes as a demonstration, and I bought a baked potato; just a plain baked potato, with no butter on it, or anything. I thought the price was excessive, so I bought a second potato and paid for it and put it in my pocket, and then I went over and had it weighed. I happened to think that possibly it might lose some of its weight in baking, and so I investigated the Government bulletins and found that it was such a small fraction or per cent that they did not even consider it. But I allowed 5 per cent of loss in baking. Then I called up a commission house and found out what potatoes sold for delivered at that hotel, and found they were delivered for $1.25 a bushel on that day. But the potato I bought cost me at the rate of $36.75 a bushel.

Representative SUMNERS. The commission has had lots of testimony along that line. I think you can give more valuable testimony.

Mr. GUSTAFSON. Pardon me just a moment, Mr. Sumners, I bought some breakfast sausage in a cafateria, and that is supposed to be one of the cheapest places to eat. I bought two portions of sausage, and when I went out I wrapped one portion in a newspaper

and *took* it with me and went over to the drug store and weighed it, and found that it would take a little more than 11 live hogs to pay for one hog made into that kind of sausage.

Representative SUMNERS. The commission has lots of testimony on that line, Mr. Gustafson, from people who are less expert on other subjects than you are, and I would like to have some information from you.

Mr. GUSTAFSON. Those are the things that have started us to thinking, and we are thinking of remedying them. My suggestion to this commission—if I may make a suggestion—is that by all means do not permit the putting of any barriers into the way of a development of cooperative bargaining and cooperative marketing, because it comes nearer, to my way of thinking, of solving these hard problems than anything I know of. And especially when we do not ask for any favors, except to be permitted to develop this system.

Representative SUMNERS. To make it entirely clear in the record—I think perhaps you have already made it clear—you are not engaged in a fight against the middleman, nor asking for any special privileges; you are only asking for the opportunity of putting your plan into operation and then letting the middleman or anybody else who can meet that competition and stay in business, stay in business, and if he goes out, let him go out because the system that he is following is the more expensive?

Mr. GUSTAFSON. Yes, sir.

Representative SUMNERS. That is your suggestion?

Mr. GUSTAFSON. Yes, sir. And pardon me for making another suggestion. I do not think that this commission could render any greater service to the American people than to give the information to the people how some of these things are being manipulated and handled by the so-called business men of this country. If this commission has the authority to get that information to the people, it will certainly make them sit up, I think, and take action.

Representative SUMNERS. The American people, I think, know that pretty well; what they would like to know is some better way of doing it.

Mr. GUSTAFSON. Well, if you give them the actual conditions as they are on the boards of trade and on the stock exchanges and things of that kind, I think it is going to create a public sentiment all over the country that will soon find a remedy.

Representative SUMNERS. I am interested in the statement you made, that the farmer retains title to his commodity.

Mr. GUSTAFSON. Yes, sir.

Representative SUMNERS. And that you have in contemplation that he will make his own financial arrangements?

Mr. GUSTAFSON. Yes; through organizations; not as individuals, but through organizations; through advances by local banks, or other local arrangements.

Representative SUMNERS. It seems to me that if the individual farmers make their own financial arrangements—if it is not made through the general system, that you pretty largely put it beyond your power to more systematically and more evenly distribute this wheat, of which you say 72 per cent goes on to the market in 90 days, because when his loan is called, the wheat is called.

Mr. GUSTAFSON. Surely, and that is what we object to, and for that reason we want to make our own arrangements that we can rely on, as do other interests, such as the manufacturers, without naming any in particular. They have their finances arranged, and they can use that money as long as they need it. That is what the farmer needs to do. If he had that arrangement, he would not have to market 72 per cent of his grain within 90 days of harvest time. He has his obligations to meet, and he can not renew them, and therefore he must sell his grain to meet his obligations.

Representative SUMNERS. Do you make the sales from samples of the grains from the several elevators, which samples you assembled at some particular place?

Mr. GUSTAFSON. Well, we will make them in any way that suits the buyer.

And another interesting thing that the committee of 17 found was the back haul—the hauling to and fro in this country was very expensive, and our investigators found it amounted to from 5 to 7 cents a bushel. We found that wheat was shipped from Nebraska, for instance, and was shipped to Chicago, and from there to Minneapolis to be ground into flour, and then the flour was shipped back to Nebraska and sold.

Representative SUMNERS. What amount of back haul did you find?

Mr. GUSTAFSON. A large amount.

Representative SUMNERS. Of the grain itself?

Mr. GUSTAFSON. Of the grain itself.

Representative SUMNERS. Your idea is to make possible the moving of this grain from the country elevators to the place where it is needed for consumption?

Mr. GUSTAFSON. As directly as possible, is our intention; and it can only be done by a national agency.

Representative SUMNERS. You want to avoid the necessity of having this grain hauled from the original station to the terminals, and then back again into the same territory?

Mr. GUSTAFSON. Yes, sir.

Senator MCNARY. Will you pardon me, Mr. Sumners?

Representative SUMNERS. Certainly, Senator, you go ahead; this is in your country anyway.

Senator MCNARY. The witness has made an interesting statement that 72 per cent of the grain moved within 90 days of harvest time, due to the farmers' necessity of having the money to meet their obligations in the fall. I have seen statistics covering a period of years, showing that the difference in the prices of the first 90 days and the prices in the following May, June, and July, is absorbed by storage, and shrinkage, and loss, due to varmints, etc. That table has been repeatedly shown. I am asking you if you have given study to that proposition, that the farmers could carry their grain in large amounts, or that the farmers who have carried their grain into May, June, or July, or the man who has bought that grain in the fall and carried it over has profited by carrying that wheat; have not those elements I have mentioned absorbed all the profits and taken all the spread between the price in the price in the fall and the price the next summer out of it?

Mr. GUSTAFSON. Some of them are becoming millionaires.

Senator McNARY. That is not the question; there are lots of millionaires being made in other ways.

Mr. GUSTAFSON. Pardon me, Senator, you asked me whether they profited. I say they do.

Senator McNARY. Have you given the matter any thought that the farmers would not profit in the long run, if they had all the credit in the world?

Mr. GUSTAFSON. Our object is to induce the farmer to keep it on his own farm, in order to get an orderly distribution.

Senator LENROOT. The Senator's question is, if the farmer has kept it on his own farm, has he made money in the long run, by keeping it, instead of selling it in the first 90 days?

Mr. GUSTAFSON. In many cases he has, and he has escaped the stigma of having some one holding a club over him.

Representative SUMNERS. If a few farmers hold their grain and the majority do not, and this glut goes on the market, you may have an upset market. Suppose, in a given year you produce 14 months' supply of wheat, a bumper crop; if one farmer carried his entire crop over, then he comes into the competition with next year's crop; but if you have a cooperative organization, you——

Senator McNARY (interposing). Your hedging is your remedy there.

Representative SUMNERS. My own judgment about hedging is, if I may express my judgment, that hedging has more influence in destroying the stability of prices than any other feature of the future board transaction, for the reason that a man who has bought a hedge has cut himself off from loss if grain goes down and from gain if it goes up. If all who own grain would lose if the price went down, the price would be relatively stable after the crop had come "in sight," and enough had been sold to indicate the judgment of the trade as to the value of that crop.

Mr. GUSTAFSON. I am informed that the hedging privileges being used the last two years have caused more elevators to lose money than anything else.

Representative SUMNERS. The parity is not maintained, because spots will not follow futures as certainly as in the old days, when spots yielded without resistance to futures.

Senator LENROOT. Mr. Gustafson, if you were a miller, would you pay as much for grain if you could not protect yourself by a hedge; wouldn't you naturally, when you had to look forward to the milling of your flour—would not the natural inclination be to pay a smaller price and save yourself?

Mr. GUSTAFSON. Under the present arrangement, I suppose I would do what the miller is doing. But we do not believe it is the best way, and we are going to try a different way, and do it in the way we can to get more for the grain.

Senator LENROOT. Do you think a miller under the conditions to-day could sell under contract his flour for the future?

Representative SUMNERS. And not buy a hedge?

Senator LENROOT. No; could any miller make contracts for future delivery of flour?

Representative SUMNERS. I do not know whether he could or not.

Representative FUNK. Is it any more necessary for a miller to do that than it is for an iron mill man to do it?

Mr. GUSTAFSON. It is just a system we have gotten into, gentlemen, that we do not seem to be able to get out of.

Senator LENROOT. But is not the situation to-day such that the miller could not make a contract for future delivery, any more than the iron mill man could make one?

Representative SUMNERS. Senator, they do make them.

Senator LENROOT. Not under the present conditions.

Representative SUMNERS. Do you mean you could not sell a contract for the future delivery of flour six months from now?

Senator LENROOT. If you can find anybody to make a contract with.

Representative SUMNERS. What is to prevent him making a contract now?

Senator LENROOT. Who will buy the flour?

Representative SUMNERS. Of course, he can not, if he does not have somebody to buy the flour.

Senator LENROOT. Not under the conditions such as we have now. On a rising market you can do it.

Representative SUMNERS. Yes; or on a stable market.

Senator LENROOT. Yes; on a stable market he could do it.

Senator CAPPER. Mr. Gustafson, is there any legislation pending in Congress at this time that you have in mind that will be helpful to agriculture?

Mr. GUSTAFSON. Yes; I think your so-called Capper-Tincher bill is all right.

Senator CAPPER. That, I think, has been finally disposed of. The conference committee has agreed on the measure, I believe. Are there any others?

Mr. GUSTAFSON. Yes; we would like now to get the decks clear so that we can develop this idea of cooperation to the fullest possible measure without being subject to any penalties, as long as we do not ask for any privileges that we are not willing to give to all the people. Now, I understand you have a bill up, but I have not followed it very closely, that contemplates doing something of that kind.

Senator CAPPER. Do you have in mind what it is?

Mr. GUSTAFSON. The Capper-Volstead bill, I believe.

Senator CAPPER. You have that in mind?

Mr. GUSTAFSON. Yes, that is the bill I mean, though I don't know what form the bill is in now. But understand me correctly, we are not asking for any class privileges for the farmer. If we ask for the idea of cooperation, we want all the people of the United States to have the same right.

Senator LENROOT. Let me ask you, in that respect, the one thing that has been held up to us on this cooperative deal is the raisin growers' association, which it is claimed is a complete monopoly. Now, do I understand that your view is that we could repeal the Sherman Antitrust Law?

Mr. GUSTAFSON. No; I am opposed to any trusts or combinations which are detrimental to the welfare of this Nation.

Senator LENROOT. Suppose the raisin growers have a complete monopoly—I am not saying they have, absolutely—what is the difference between the raisin growers position with cooperation or with a monopoly?

Mr. GUSTAFSON. They are not the same thing at all.

Senator LENROOT. But I am assuming now that the result is the same.

Senator MCNARY. They are a monopoly if they have done anything to increase the prices to the producer. That is all a monopoly does.

Mr. GUSTAFSON. Would it be wrong to try to increase prices to cover cost of production at this time, and besides, prices may be helped by other factors than monopolistic practices.

Senator MCNARY. Following Senator Lenroot's question, let me ask you if you are in favor of a monopoly?

Mr. GUSTAFSON. I am not in favor of monopolistic practices. However, as farmers produce all foodstuffs and raw material for clothing, they violate no law or do anything against the welfare of the people when they distribute these commodities in an orderly way. You see, they not only have in their possession the 51 per cent, but the entire 100 per cent, and rightly so, for if each person produced these essentials for himself, society as now organized must fail. So to save our social fabric and civilization, the farmers have been called upon to produce food and fabrics, and it is only logical to look to them for our source of supply.

Senator MCNARY. What is the difference in the organization——

Mr. GUSTAFSON (interposing). What is the purpose of all organization if it is not for the betterment of the members of the organization? It is not the purpose of the producers to organize in cooperative organizations to increase the prices to the ultimate consumer. I do not know of any such efforts among our grain growers whatever.

Senator MCNARY. And to make it less expensive to do the business, and to divide the profits?

Mr. GUSTAFSON. Yes, sir.

Senator MCNARY. I am interested in the Capper bill. There is a provision which has been tacked on by the Senate committee which I have discussed with Senator Capper and others. Perhaps it is more of a legal question than an economical one. But is there any effort now by the Government or the States to hinder or destroy cooperative organization?

Mr. GUSTAFSON. I am not a lawyer, nor a lawmaker, but I wish this commission—I would suggest to this commission that they go into that matter thoroughly and find out what legislation is necessary and recommend to Congress such legislation.

Senator MCNARY. I gathered from your statement here that you hoped this commission would recommend the Capper-Volstead idea.

Mr. GUSTAFSON. I did not quite finish my statement in reply to Senator Capper. I do not think I made that statement that way.

Senator MCNARY. I wanted to clear it up in my own mind.

Mr. GUSTAFSON. I do hope you will enact some legislation that will make it possible for us to cooperate. I think I made a statement at the opening of this meeting, when Senator Capper was not present, to that effect.

The CHAIRMAN. In connection with Senator McNary's question, are you familiar with the prosecutions at various places, and some of them have been brought to a conclusion, against some of the cooperative milk associations?

Mr. GUSTAFSON. Yes; we are expecting that if this idea of co operative marketing advances, that we will be attacked in every wa possible. As long as we are not asking for privileges, we hope tha we will be protected. That is all we ask for.

Representative FUNK. Let me ask you: If the Sherman antitrus laws should be repealed, do you think there is any danger of a mo nopoly being created in grain, which is a world-wide crop?

Mr. GUSTAFSON. No; but I am not in favor of repealing th Sherman law.

Senator LENROOT. Coming back to the raisin growers' association— and I am not saying it is a monopoly, but it comes nearer to wha I desire for an illustration, because it is not like grain; assuming tha a cooperative association in raisins can secure and does secure a absolute monopoly, is it your opinion that it should not be subjec to the Sherman law?

Mr. GUSTAFSON. To have a monopoly is not necessarily harmfu to the public, as is illustrated by such natural monopolies as wate power and water supplies for cities, and such generally recognize monopolies as telephone lines, electric car lines, and others of lik nature. However, monopolistic or harmful practices ought to b checked; I don't care who tries it.

Senator LENROOT. Whether a producer or manufacturer, or wh he is?

Mr. GUSTAFSON. I do not believe in harmful monopolistic practices

Senator LENROOT. Now, there is a very clear distinction betwee an absolute monopoly and partial restraint of trade. A partia restraint of trade, we will all grant, I think, may result from coopera tive associations, and yet it is to the benefit of the public that the be permitted.

Mr. GUSTAFSON. You take some of these European countries, wher it has developed, and it has brought benefit to the whole nation.

Senator LENROOT. I am trying to get at your view, whether ther is any place in a cooperative association where we should permit th Sherman law still to apply.

Mr. GUSTAFSON. Well, in order to intelligently answer these severa questions it would be necessary to know just what all the laws are and what the rules are at this time. I do not know that I coul answer that question directly. However, I do want to say that I want laws preventing powerful monopolistic practices. I do not car what they are; even if the farmer should want to do so, I am oppose to it. And I have been a farmer all my life. But I am opposed to harmful monopolistic practices. I do think this, Senator, that ther are a lot of people unduly alarmed about what the farmer is going to do when he gets organized.

Senator LENROOT. So far as your organization is concerned, a monopoly would be absolutely impossible in grain.

Mr. GUSTAFSON. In grain and live stock and dairy products it can not be done. Of course, you take some certain fruits and vegetables that are limited in production, and there is a possibility of a monop- oly, possibly.

Senator CAPPER. Are you familiar with the bill as it passed the House and is now before the Senate, the cooperative marketing bill?

Mr. GUSTAFSON. No; I have not paid any attention to it lately, Senator. I do not know what shape it is in. A year or two ago I

was interested, but I have been so busy with other matters I have not paid any attention to it.

Senator LENROOT. Assuming that the bill is finally passed to relieve cooperative organizations from the restraints of the Sherman law except where there is an actual harmful monopoly, what would you say about it?

Mr. GUSTAFSON. Oh, I think that would be fair, wouldn't it?

Senator LENROOT. That is what I am asking.

Mr. GUSTAFSON. However, I would like to see the proposed law before I answered definitely those questions.

Senator CAPPER. Have you any suggestions as to the transportation problem, Mr. Gustafson?

Mr. GUSTAFSON. That is a matter that has got to be gone into pretty carefully, but we do feel that the high rates for transportation at the present time are very detrimental to the producer. We find that we can not ship certain products very far before the cost of transportation equals the price we get for them. The farmers feel that transportation charges are entirely too high at the present time. However, that is a thing that ought to be gone into quite carefully. I do not know what the conditions of the railroads are, what money they need to have. I think possibly, for the best interests of the whole Nation, that a reorganization of our transportation systems would be a good thing, but that is a pretty big job. I think there are duplications that are unnecessary, and I do think there are a number of trains running back and forth that are not hauling nearly their capacity, which makes it very expensive, and there is a lot of waste along that line.

Senator LENROOT. You say your relations with representatives of the packers are entirely harmonious and they are treating you fairly. We have just had up what is known as the "packers' bill." Have you anything to say about that phase of it?

Mr. GUSTAFSON. I only want to repeat what I tried to say once or twice this morning, that if this commission has the power to give to the public some information regarding the cost of handling our products between the producer and the consumer, I do not care whether it is farm products or machinery or what it is, that would be one of the greatest services you could render to the country.

Senator LENROOT. That we expect to do, of course.

Mr. GUSTAFSON. If you could show to the American people what it costs to handle the grain between the man down on the farm and you that eat it in town, or wherever you eat it, and the same way with dairy products and live-stock products, I think you will render the greatest service that you possibly could render. We never get the facts; they are so hard to get.

Senator LENROOT. If the commission should find that the greatest spread of all is between the wholesaler or commission man and the consumer, through the retailer, do you think that knowledge would tend to make the people correct the condition themselves through more economical buying?

Mr. GUSTAFSON. Yes; to some extent I think it would. However, as a people we are very extravagant, we are very easy going, and we are looking for accommodations, and we certainly pay for them. But those people that do want to practice economy could do so if they had a better system.

The CHAIRMAN. We are very much obliged to you, Mr. Gustafson, I am sure.

Mr. GUSTAFSON. I thank you very much, gentlemen. I would like to say, Mr. Chairman, that at any time there is any further information I can give you, I shall be very glad to do so.

The CHAIRMAN. Mr. Funk, the commission will be glad to hear you now.

STATEMENT OF MR. EUGENE D. FUNK, FARMER, SHIRLEY, ILL.

Mr. FUNK. Mr. Chairman and gentlemen, my name is Eugene D. Funk, and my post office address is Shirley, Ill. I live on and operate my own farm. For 20 years past I have been endeavoring to increase the quality and to increase the quantity of the corn crop per acre for the Central West. We are to-day cooperating with the United States Department of Agriculture and the Illinois College of Agriculture, as well as with several other States and institutions and investigators, in an investigation of various diseases that are affecting the corn fields in the United States. These diseases are now reducing the annual crop yield on an average of at least 20 per cent of what they should yield with corn free of these diseases.

There are 35 acres on my farm known as the Government plots. These are devoted entirely to the study of this corn disease. Farmers' Bulletin No. 1176, Department of Agriculture, Washington, D. C., and the report entitled Corn Disease Investigation, Illinois Farmers' Institute, Springfield, Ill., are devoted to this study and can be secured by anyone for the writing. I submit copies of those to you, gentlemen. Also, if any of the members of the committee care to look at the photographs of corn infected by these diseases I have here they are at liberty to do so.

During the late war President Wilson and Mr. Hoover requested me to serve on the Wheat Price Fixing Commission, and later I was appointed as one of the advisory committee for both the food and agricultural departments.

I wish to say that my experience during the war and my subsequent study of agriculture permits me to present to you this thought, that a very large percentage of the people who live within the confines of the large cities do not realize the importance and have only a remote idea of what this Nation's agricultural resources means to them and to future generations.

Our cosmopolitan magazines and newspapers too often point to the suggestion that the farmer's lot is merely to "sow and reap." The intricate working of the fields of agriculture is not apparent to the casual observer as he looks out of the window of the passing train, or even when he comes in his auto to the wayside inn and asks the good housewife for a quart of pure milk or a dozen eggs to take home to his city roost.

I have drawn here a sketch of an average field in the Central West, a corn field or oats field or wheat field of 40 acres. And I am wondering how many of the members of this commission have ever thought as to how far a farmer would travel in producing a 40-acre field of corn. I have figures here to show that in going back and forth over this field in the different operations, nine of them, he travels approxi-

mately 971 miles during the season to produce 40 acres of corn and gather the crop. I will give you these figures for the record.

The CHAIRMAN. Without objection they will be inserted in the record.

(The statement referred to is here printed in full, as follows:)

	Times across field.
Breaking stalks, previous crop, $\frac{1320}{3\frac{1}{2}}$ x 3 rows	126
Disking ground (8-foot disk), $\frac{1320}{8}$	165
Plowing ground (12-inch plow), $\frac{1320}{8}$	1,320
Disking ground (8-foot disk), $\frac{1320}{8}$	165
Harrow (12-foot harrow), $\frac{1320}{12}$	110
Planting (2 rows, 7 feet), $\frac{1320}{7}$	190
Harrowing (12-foot harrow), $\frac{1320}{12}$	110
Cultivating 4 times, $\frac{1320}{3\frac{1}{2}}$ x 4	1,501
Harvesting (2 rows), $\frac{1320}{7}$	190
Total	3,884

$\frac{3{,}884 \text{ x } 80 \text{ rods}}{320 \text{ rods in mile}}$ = 971 miles for 40 acres, or 24.3 miles for 1 acre.

Mr. FUNK. That our agricultural situation is a subject for very serious consideration is not, in my opinion, due primarily to the effect of the "after-the-war" conditions, nor is it due to any one particular cause, but may be traced to a collection of causes, no one of which in the eyes of those who do not dive deeply enough into this matter of investigation, may appear to them as the prime evil of the whole.

I desire to compliment you, Mr. Chairman, and your commission, for taking up at this period of our country's history some of these most intricate and important problems before it is too late. I have been requested through your secretary to come here and discuss with you the present conditions relative to the cost of growing a crop of corn.

First, let it be understood that no farmer can produce a maximum crop of corn, or for that matter, no crop can be successfully and profitably grown without a proper balanced plant food for his soil and good seed. If his soil or his seed is infected or is deficient to the extent that his crop fails of 20 per cent of its maximum yield, that farmer is wasting or losing 20 per cent of his energy during the entire year, and this lost production must add that much more to the cost of that which he is able to harvest.

Many farms are so reduced in soil fertility that it is next to impossible to realize a fair and profitable crop, even though the price of the harvested grain is beyond the limit which the consumer is able to pay. The abandoned farms of New York and other States reflect in a measure what I am now trying to present to you. Outside capital must come to the farmers' rescue before they will again be

cultivated and cropped. The cost of production enters into the growing of corn or oats just the same as the cost of manufacturing any article used by man. Railroads, steamboats, automobiles, shoes, clothing, the building of a house, all are figured on the basis of the cost of production, and our Government is and our laws should be based on the legitimate protection of those who produce, and they should receive the cost of production plus a reasonable profit for the finished product.

The thinking farmer realizes that he is not alone in his trouble at the present time in endeavoring to get from under the burden of higher cost of producing crops. He does feel, however, that the present conditions point to the fact that something must be done to relieve him or he will soon be obliged to leave his farm, and allow nature to cover his fields with daisies and dandelions.

I have brought with me, Mr. Chairman, a number of letters, affidavits, sworn statements, and telegrams from actual bona-fide farmers, land owners, and tenants, which I wish to present to you to prove the conditions existing in Illinois at this time. Some of these, Mr. Chairman, I will not take the time to read but will ask permission to have them printed for your later consideration.

The CHAIRMAN. Without objection, that may be done.

Mr. FUNK. Some of them I want to read to you as showing the cost of production of corn. I shall confine myself largely to corn, as you have requested.

I would like to state at the outset that but a small percentage of farmers are in the habit of keeping books, a strictly, carefully compiled set of books. Their income does not enable them to employ a bookkeeper, and their own time does not, as a rule, allow them to make out a carefully compiled set of books. But there are a few people who have undertaken to find out the cost of producing a bushel of corn, or what it costs to produce a crop of corn on an acre of ground, and I have quite a number of these statements here. I will read just one or two, and then pass the others over.

Here is one submitted to me by Mr. Edward Peterson, of Wheaton, Ill., for the crop of 1920. In this statement he has itemized man labor, horses, equipment, interest, buildings, rent, manure, seed, tractors, oil, insurance, weighing, kerosene—those items are included in his costs.

Now, as to his receipts. He uses his corn stalks; that is, after his corn has been gathered in the field he uses his corn stalks for pasture. He has allowed a price for his pasture. He has also, apparently, according to this statement, fed some of his grain to his stock before it was ripe. I see he has here 4 tons of green corn, and then he gives figures on the corn that he finally gathered. This is a report on 33½ acres of land. There was a total yield of 1,467 bushels, at a total cost of $1,369.20, or a cost per acre of $40.88, and a cost per bushel of 93 cents. The gross income shown is $1,041.25, with a loss of $327.95.

The CHAIRMAN. Does that represent a 1920 operation?

Mr. FUNK. Yes, sir. I will not go into detail with all these others.

(The statement referred to is here printed in full, as follows):

Ed. Peterson, Wheaton, Ill.; 1,404 bushels husked corn; 4 tons green corn; equal to 1,467 bushels corn.

[Corn: Acres, 33½; farm No. 384; yield 1,467; year 1920–21.]

Items.	Total.	Per cent.	Per acre.	Per bushel.
EXPENDITURES.				
Man labor 865.15 days	$187.16	14	$5.59	$0.13
Horses 1,623.30 days	364.93	26	10.89	.25
Equipment 1,623.30 days	83.30	6	2.49	.06
Interest	16.43	1	.49	.01
Buildings	10.00	1	.30	.01
Rent	281.01	21	8.39	.19
Manure	360.39	26	10.76	.24
Seed, 5 bushels	16.25	1	.49	.01
Tractor, 4 hours	4.00	....	.12	....
Oil	.69	....	.02	....
Insurance	8.06	1	.24	.01
Res. sod	35.96	3	1.07	.02
Weighing	.05	....	....	....
Kerosene	.97	....	.03	....
Total	1,369.20	100	40.88	.93
REVENUE.				
Corn-stalk pasture	17.00	....	....	....
4 tons green corn	20.00	....	....	....
1,404 bushels husked corn	1,004.25	....	....	....
Total	1,041.25	....	....	....
Cost	1,369.20	....	....	....
Loss	327.95	....	....	....

The CHAIRMAN. May I ask if you have any statements there which take the other end of the proposition and undertake to show what the return to the farmer was on the operation of his plant as a plant, as distinguished from an attempt to get at the cost per bushel?

Mr. FUNK. Yes, sir; I have some reports on that, taking it as a farm, which I will submit a little later. I am confining it now strictly to corn. I will lead up to that.

Here is the statement of Mr. C. A. Hunt, of Morris, Ill., for the crop of 1920. This covers 40 acres, at a total cost of——

The CHAIRMAN (interposing). May I say, Mr. Funk, that I think those figures are already in the record. They were submitted by Mr. Silver in connection with his statement.

Mr. FUNK. All right, sir. I shall not read that.

Here is one from Mr. Fred R. Taylor, of Rossville. I am only going to give you one of his, for 1919, although he has given me the records from 1913.

The CHAIRMAN. We would be very glad to have them all, if they go back as far as 1913. You might just insert them in the record. I assume they are self-explanatory?

Mr. FUNK. Yes, sir; they are.

(The statements referred to are here printed in full, as follows:)

Cost account of 40 acres corn, 1920, by C. A. Hunt, Morris, Ill.

Operation.	Man-hours.	Horse-hours.	Horses.	Amount.	
Plowing	130	520	4		$84.50
Disking, twice	50	200	4		22.50
Harrowing (3)	25	100	4		16.25
Planting	22	44	2		9.90
Rolling	20	60	3		11.00
Cultivation (3)	140	280	2		63.00
Weeding and mowing	30				7.50
Manure hauling	40	120	3		22.00
Husking	192				48.00
Seed, 6 bushels, at $3 per bushel					18.00
Shelling, including coal or gas, at 2¼ cents per bushel					40.50
Hauling to market	50	100			22.50
Interest on land and equipment, at 6 per cent, land valued at $250 per acre, equipment at $1,500, for a period of four months					630.00
Tax					86.00
Total cost					1,091.65
Cost per bushel, $0.60.					
Cost per acre, $27.29.					
Yield at 45 bushels per acre, 1,800 bushels, at 50 cents per bushel				$900.00	
Value of fodder, at $2 per acre				80.00	
					980.00
Loss					111.65
Man labor, per hour					.[illegible]
Horse labor, per hour					.[illegible]

Cost of growing 10 acres corn, 1919; account kept by Fred R. Taylor, Rockville, Ill.

[Folio, field D. Total yield, 525 per acre, 52.5 bushels.]

Operation.	Total cost.				Per acre.			
	Man-hours.	Value.	Horse-hours.	Value.	Man-hours.	Value.	Horse-hours.	Value.
Disking stalks	29	$10.88	116	$26.68	2.9	$1.09	11.6	$2.67
Plowing	25	9.38	125	28.75	2.5	.94	12.5	2.88
Disking	7½	2.81	30	6.90	.75	.28	3.0	.69
Planting	8	3.00	16	33.68	.8	.30	1.6	.37
Harrowing	6	2.25	24	5.52	.6	.23	2.4	.55
First cultivation	19	7.13	38	8.74	1.9	.71	3.8	.87
Second cultivation	23½	8.81	47	10.81	2.35	.88	4.7	1.08
Third cultivation	18	6.75	36	8.28	1.8	.68	3.6	.83
Husking	52½		105	24.15	5.25		10.5	2.42
	192½	52.51	553	127.19	19.25	5.26	55.3	12.72
				52.51				5.25
Cash paid for husking				34.13				3.41
Board of corn husker, 7 days				7.00				.70
Board of corn husker's horse				3.00				.30
Total cost of labor				228.83				22.48
1½ bushels seed corn, at $6				7.50				.75
Machinery charge				8.70				.87
Total cost of 10 acres				240.03				24.03
Cost of growing 1 bushel of corn								.39
Returns to renter, 262.5 bushels corn, at $1				262.50				26.25
Profit per acre				22.47				2.23
Returns to land owner, 262.5 bushels corn, at $1				262.50				26.25

Mr. FUNK. Referring to the question you asked me a little while ago, I have here a number of sworn affidavits, one of which I will read. The others are similar. [Reading:]

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 240 acres in Owego Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, one-half of the oats, and $8 per acre for the pasture land. During the season 1921 there were grown on this farm 100 acres of corn, 90 acres of oats, and 50 acres of hay and pasture land. The acre yields were as follows: Corn (estimated), 35 bushels per acre; oats (actual), 34 bushels per acre.

I estimate the value of my land at $325 per acre. The average assessed value of land in my township in 1920 was $44 per acre. The tax on this land for 1920 was $1.6658 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crops, on the basis of present market prices at my local elevator—corn, 43 cents per bushel; oats, 24 cents per bushel—netted me a loss of $14.83 per acre.

J. B. HARDING.

Subscribed and sworn to before me this 8th day of August, 1921.

DORRIS WOLFF, *Notary Public.*

There are a number of those.

The CHAIRMAN. Very well, you may insert them in the record.

(The statements referred to are here printed in full, as follows:)

To whom it may concern:

I wish to hereby state that I am a farmer operating a farm of 240 acres in Eppords Point Township, Livingston County, Ill. On this farm I grew 120 acres of corn, 100 acres of oats, and 20 acres of hay and pasture during the season of 1921. My acre yields were as follows: Corn (estimated), 50 bushels per acre; oats (actual), 20 bushels per acre.

The cost of producing these crops has been: Corn, $10.97 per acre, 22 cents per bushel; oats, $8.40 per acre, 42 cents per bushel.

The production cost does not include interest on my investment in land and improvements. I estimate the value of my farm at $300 per acre. The tax on this land for 1920 was $2 per acre. Considering this investment on the basis of my estimate, at 6 per cent per annum, the crop will net me a loss of $17.33 per acre.

W. S. HOLMES.

Subscribed and sworn to before me this 9th day of August, 1921.

LOUIS WOLFF, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 320 acres in Saunemin Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, two-fifths of the oats, one-half of the wheat, $5 for the hay, and $7 per acre for the pasture. During the season 1921 there were grown on this farm 120 acres of corn, 80 acres of oats, 40 acres of wheat, and 80 acres of hay and pasture. The acre yields were as follows: Corn (estimated), 25 bushels per acre; oats (actual), 36 bushels per acre; wheat (actual), 21.5 bushels per acre.

I estimate the value of my land at $300 per acre. The tax on this land for 1920 was $2 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crop, on the basis of present market prices at my local elevator—corn, 43 cents per bushel; oats, 26 cents per bushel; and wheat, $1.07 per bushel—netted me a loss of $13.52 per acre.

H. J. MEIS, *Pontiac, Ill.*

Subscribed and sworn to before me this 9th day of August, 1921.

C. R. TOMBAUGH, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 120 acres in Esmen Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, one-half of the oats, and $6 per acre for the pasture land. During the season 1921 there were grown on this farm 54 acres of corn, 62 acres of oats, and 4 acres of hay and pasture. The acre yields were as follows: Corn (estimated), 40 bushels per acre; oats (actual), 30 bushels per acre.

I estimate the value of my land at $300 per acre. The tax on this land for 1920 was $1.40 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crop, on the basis of present market prices at my local elevator—corn, 45 cents per bushel; oats, 26 cents per bushel—netted me a loss of $13.14 per acre.

M. WHALEN.

Subscribed and sworn to before me this 9th day of August, 1921.

D. E. MYERS, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 155 acres in Eppards Point Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, and $7 per acre for the pasture land. During the season 1921 there were grown on this farm 82 acres of corn, 60 acres of oats, and 13 acres of hay and pasture. The acre-yields were as follows: Corn (estimated), 35 bushels per acre; oats (actual), 30 bushels per acre.

I estimate the value of my land at $300 per acre. The tax on this land for 1920 was $1.14 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crop, on the basis of present market prices at my local elevator—corn, 43 cents per bushel; oats, 26 cents per bushel—netted me a loss of $13.06 per acre.

WM. SHAFER.

Subscribed and sworn to before me this 8th day of August, 1921.

E. G. SMILAR, *Notary Public*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 160 acres in Owego Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, one-half of the oats, and $6 per acre for the pasture land. During the season 1921 there were grown on this farm 75 acres of corn, 55 acres of oats, and 30 acres of hay and pasture. The acre yields were as follows: Corn (estimated), 40 bushels per acre; oats (actual), 39 bushels per acre.

I estimate the value of my land at $200 per acre. The average assessed value of land in my township in 1920 was $45.33 per acre. The tax on this land for 1920 was $1.75 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crop, on the basis of present market prices at my local elevator—corn, 41 cents per bushel; oats, 26 cents per bushel—netted me a loss of $6.51 per acre.

GEORGE REITZ.

Subscribed and sworn to before me this 9th day of August, 1921.

JOHN DUFF, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 200 acres in Owego Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn and $5 per acre for the pasture land. During the season 1921 there were grown on this farm 106 acres of corn, 66 acres of oats, and 28 acres of hay and pasture. The acre yields were as follows: Corn (estimated), 35 bushels per acre; oats (actual), 35 bushels per acre.

I estimate the value of my land at $250 per acre. The tax on this land for 1920 was $1.279 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crop, on the basis of present market prices at my local elevator—corn, 43 cents per bushel; oats, 26 cents per bushel—netted me a loss of $11.16 per acre.

ROBERT HUGHES.

Subscribed and sworn to before me this —— day of August, 1921.

C. A. ROLLIN, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 200 acres in Rooks Creek Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, two-fifths of the oats, and $6 per acre for the pasture land. During the season 1921 there were grown on this farm 78 acres of corn, 90 acres of oats, and 32 acres of hay and pasture. The acre-yields were as follows: Corn (estimated), 40 bushels per acre; oats (actual), 25 bushels per acre.

I estimate the value of my land at $250 per acre. The tax on this land for 1920 was $1.75 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crops, on the basis of present market prices at my local elevator—corn, 45 cents per bushel; oats, 26 cents per bushel—netted me a loss of $11.11 per acre.

CHAS. FIENHOLD, *Pontiac, Ill.*

Subscribed and sworn to before me this 9th day of August, 1921.

J. W. LYON, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 320 acres in Owego Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, one-half of the oats, one-half of the wheat, one-half of the hay, and 50 cents per acre for the pasture land. During the season 1921 there were grown on this farm 120 acres of corn, 80 acres of oats, 45 acres of wheat, and 75 acres of hay and pasture. The acre yields were as follows: Corn (estimated), 35 bushels per acre; oats (actual) 40 bushels per acre; wheat (actual), 20 bushels per acre.

I estimate the value of my land at $250 per acre. The tax on this land for 1920 was $2 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crops, on the basis of present market prices at my local elevator—corn, 43 cents per bushel; oats, 27 cents per bushel; and wheat, $1.05 per bushel—netted me a loss of $11.36 per acre.

J. T. MONTUNASE, *Pontiac, Ill.*

Subscribed and sworn to before me this 9th day of August, 1921.

J. R. TOMBAUGH, *Notary Public.*

To whom it may concern:

I wish to hereby state that I am the owner of a farm of 160 acres in Pontaic Township, Livingston County, Ill., which is operated by a tenant on the share-rent basis. I receive as my portion of the crops one-half of the corn, $5 for the hay, and $4 for the pasture per acre. During the season 1921 there were grown on this farm 75 acres of corn, 59 acres of oats, and 26 acres of hay and pasture. The acre-yields were as follows: Corn (estimated), 35 bushels per acre; oats (actual), 40 bushels per acre.

I estimate the value of my land at $325 per acre. The average assessed value of land in my township in 1920 was $46.25 per acre. The tax on this land for 1920 was $2.07 per acre. Considering this investment on the basis of my estimate of value at 6 per cent per annum, my share of the crops, on the basis of present market prices at my local elevator—corn, 43 cents per bushel; oats, 26 cents per bushel—netted me a loss of $15.33 per acre.

JOHN YOUNG.

Subscribed and sworn to before me this 8th day of August, 1921.

JOHN S. MARSHALL, *Notary Public.*

Mr. FUNK. I have another set of detailed accounts for raising corn on seven fields on two farms in Lee County, Ill., on which cost records were kept for the year 1920. I do not suppose you care to have me read them.

The CHAIRMAN. You may submit them for the record.

(The statement referred to is here printed in full, as follows:)

Detailed cost of raising corn on seven fields on two farms in Lee County, Ill., on which cost records were kept for the year 1920.

Field No. 3L; 35 acres; yield, 1,620 bushels:

5 bushels seed	$20.60
236 hours man labor	79.36
551 hours horse	167.80
12 hours tractor	13.42
Husking labor	109.08
Taxes	44.10
Machinery expense	36.64
Interest on investment in land	420.00
Total cost	890.40
Cost per acre	25.44
Cost per bushel	$.54\frac{9}{10}$

Field No. 5L; 7 acres; yield, 300 bushels:

59 hours man labor	$18.26
159 hours home labor	48.42
$1\frac{1}{4}$ bushels seed	5.00
Husking labor	20.20
Rent	84.00
Machinery expense	8.37
Total cost	184.25
Cost per acre	26.32
Cost per bushel	$.61\frac{4}{10}$

Field No. 6L; 33 acres; yield 915 bushels:

190 hours man labor	$58.82
504 hours horse labor	153.49
15 hours tractor labor	16.77
4.3 bushels seed	17.20
Husking labor	61.61
Rent	396.00
Machinery expenses	31.41
Total cost	735.30
Cost per acre	22.27
Cost per bushel	$.80\frac{4}{10}$

Field No. 7L; 7 acres; yield, 350 bushels:

79 hours man labor	$24.46
161 hours horse labor	49.02
7 hours tractor labor	7.83
1 bushel seed	4.00
Taxes	8.82
Machinery expenses	7.33
Interest on investment	84.00
Total cost	185.46
Cost per acre	26.49
Cost per bushel	.53

Hogged off; no expense for husking.

Field No. 8L; 20 acres; yield, 400 bushels:

Manure	$45.00
199 hours man labor	61.62
450 hours horse labor	139.81
33 hours tractor labor	36.89
3 bushels seed	12.00
Taxes	25.20
Machinery expenses	20.92
Interest on investment	240.00
Total cost	581.44
Cost per acre	29.07
Cost per bushel	1.45

Hogged off; no expense for husking.

Field No. 1B; 15 acres; yield, 600 bushel:

Fall plowing	$30.00
239 hours man labor	84.25
590 hours horse labor	92.66
2 bushel seed	9.00
Machinery expenses	28.53
Taxes	44.70
Interest on investment	187.50
Total cost	476.64
Cost per acre	31.77
Cost per bushel	.79$\frac{4}{10}$

Field No. 2B; 7½ acres; yield 375 bushels:

282 hours man labor	$99.44
460 hours home labor	72.25
1 bushel seed	4.50
Twine	4.00
Machinery expense	22.11
Taxes	22.35
Interest on investment	93.75
Total cost	318.40
Cost per acre	42.45
Cost per bushel	.85

Total acres in all fields	124½
Total yield (bushels)	4,560
Total cost	$3,371.89
Average cost per acre	$27.08
Average cost per bushel	0.73\frac{9}{10}$

Cost of growing corn.

FIELD A, 20 ACRES, 1913.

Operation.	Date.	Total yield.				Per acre.			
		Man hours.	Value.	Horse hours.	Value.	Man hours.	Value.	Horse hours.	Value.
Removing stalks	Apr. 28	17¾	$3.20	48½	$4.83				
Plowing	May 2–8	44¾	8.06	157	15.70				
Harrowing	May 14	8½	1.53	34	3.40				
Planting	May 14–16	11¾	2.12	23.50	2.35				
Harrowing corn	May 24–28	11½	2.08	34.50	3.46				
First cultivation	June 4–5	35½	6.40	71	7.10				
Second cultivation	June 14	25¼	4.55	50.50	5.05				
Third cultivation	June 27–28	33½	6.70	67	6.70				
Cutting corn	Sept 8–15	151	52.86						
Total		339½	87.50	485.75	48.59				
					87.50				
Total labor cost					136.09				
Twine, 10 pounds, at $10.25.					1.03				
Seed, 2¾ bushels, at $2.50.					6.88				
Machinery cost					10.00				
Land rental, 20 acres, at $8.					160.00				
Total cost					314.00				

Cost of growing corn—Continued.

FIELD F., 6.31 ACRES, 1914.

Operation.	Date.	Total yield. Man hours.	Value.	Horse hours.	Value.	Per acre. Man hours.	Value.	Horse hours.	Value.
Plowing	Apr.30–May 1.	16¾	$3.03	57¾	$5.78	2.65	$0.48	9.15	[illegible]
Harrowing	May 2–13	5¼	1.04	23	2.30	.91	.16	3.64	[illegible]
Planting	May 13	6	1.08	12	1.20	.95	.17	1.90	[illegible]
Planting pumpkins	May 26–June 1.	6½	1.14			1.03	.18		
First cultivation	June 1	8	1.60	16	1.60	1.26	.25	2.53	[illegible]
Second cultivation	June 5	10½	2.10	21	2.10	1.66	.33	3.32	[illegible]
Third cultivation	June 16	7½	1.50	15	1.50	1.19	.24	2.37	[illegible]
Picking seed	Sept. 11–16	19	3.80	8	.80	3	.60	1.26	[illegible]
Husking	Nov. 11–12	31	8.68	62	6.20	4.91	1.37	9.82	[illegible]
Total		111	23.97	214¾	21.48 23.97	17.56	3.78	33.99	[illegible]
Total labor cost					45.45				[illegible]
Land rentals, at $8					50.48				[illegible]
Seed, 48 pounds, at $2.80.					2.40				[illegible]
Machinery cost					2.55				[illegible]
Total cost					100.88				[illegible]
Summary:									
180 bushels corn, at $0.60.					108.00				17.1
1,430 ears seed corn, at $1.50.					21.45				3.4
Returns					129.45				[illegible]
Cost					100.88				[illegible]
Gain					28.57				[illegible]

FIELD A, 20.74 ACRES, 1914.

Operation.	Date.	Total yield. Man hours.	Value.	Horse hours.	Value.	Per acre. Man hours.	Value.	Horse hours.	Value.
Plowing	Apr. 25–30	56¾	$10.23	197¾	$19.87	2.73	$0.49	9.53	[illegible]
Harrowing	May 4–5	13½	2.43	47	4.70	.65	.11	2.26	[illegible]
Planting	May 5–6	13¾	2.48	27½	2.75	.66	.11	1.32	[illegible]
Harrowing corn	May 13	6¼	1.13	25	2.50	.30	.05	1.20	[illegible]
First cultivation	May 27–28	43½	7.83	87	8.70	2.09	.38	4.18	[illegible]
Second cultivation	June 2–3	35¼	7.05	70½	7.05	1.69	.34	3.39	[illegible]
Third cultivation	June 12–15	28½	5.70	57	5.70	1.37	.28	2.75	[illegible]
Fourth cultivation	June 19–20	24¾	4.95	49½	4.95	1.19	.24	2.39	[illegible]
Picking seed	Sept. 11–12	9	1.80	8	.80	.43	.08	.34	[illegible]
Husking	Oct. 20–Nov. 5	112	26.92	221	22.10	5.40	1.29	10.65	[illegible]
Total		343½	70.52	790½	79.03 70.52	16.51	3.37	38.01	[illegible] 3.3
Total labor cost					149.55				[illegible]
Land rental at $8					165.92				[illegible]
Seeds, 3 bushels, 8 pounds, at $2.80.					8.80				[illegible]
Machinery cost					9.82				[illegible]
Total cost					334.39				[illegible]
Summary:									
646 bushels corn at $0.60.					387.60				[illegible]
500 ears seed, at $1.50.					7.50				[illegible]
Total returns					402.85				[illegible]
Total cost					334.09				[illegible]
Gain					68.76				3.3[illegible]

Cost of growing corn—Continued.

FIELD A, 18.74 ACRES, 1915.

[Total yield, 1,016 bushels; per acre yield, 54.21 bushels.]

Operation.	Date.	Total yield.				Per acre.			
		Man hours.	Value.	Horse hours.	Value.	Man hours.	Value.	Horse hours.	Value.
Plowing		53¼	$10.65	185¾	$15.58	2.84	$0.57	9.91	$0.99
Harrowing		19¼	3.85	68	6.80	1.03	.20	3.63	.36
Disking		15	3.00	60	6.00	.80	.16	3.70	.32
Planting		10¾	2.15	41½	2.15	.57	.11	1.14	.11
First cultivation		28½	5.70	57	5.70	1.57	.31	3.14	.31
Second cultivation		33	6.60	66	6.60	1.76	.35	3.52	.35
Third cultivation		22½	4.50	45	4.50	1.20	.24	2.41	.24
Fourth cultivation		21	4.20	42	4.20	1.12	.22	2.25	.23
Husking		147	36.76	309	30.90	7.84	1.96	11.20	1.12
Total		350¼	77.41	854¼	85.43	18.73	3.82	40.40	4.03
					77.41				3.82
Total labor, cost					162.84				7.85
Seed, 2 bushels, 44 pounds, at $0.5.					7.80				.41
Machinery cost					9.57				.51
Rent					149.92				8.00
Total									16.77
Cost per bushel			.30						

FIELD D, 27.6 ACRES, 1916.

Disking					$5.90				$11.80
Plowing					14.30				26.60
Harrowing					4.35				7.45
Planting					3.60				3.60
First cultivation					9.50				9.50
Second cultivation					8.40				8.40
Third cultivation					7.80				7.80
Fourth cultivation					8.50				8.50
Harrowing corn					1.70				2.55
Husking					29.50				17.20
Total					93.55				103.40
Total labor cost									93.55
Paid cash for husking									10.00
Machinery use									24.60
4 bushels seed, at $4									16.00
Total									247.55
Cost to renter for each acre he receives									17.94
Cost per bushel on yield of 1,060 bushels on 27.6 acres									.46

FIELD A, 20.74 ACRES, 1917.

Plowing					$10.90				$19.90
Disking					3.20				6.40
Harrowing					2.60				5.20
Planting					2.70				2.70
Harrowing					1.80				3.60
First cultivation					6.05				6.05
Second cultivation					5.60				5.60
Third cultivation					5.80				5.80
Husking									22.40
Total					38.65				77.65
									38.65
Paid cash for husking									58.60
Board for husker (9 days)									9.00
Total labor cost									183.90
150 pounds seed, at 5 cents									7.50
Machinery cost									11.00
Total cost									202.40
Cost per acre for renter's share									19.51
Cost per bushel to renter									.36

Cost of growing corn—Continued.

FIELD E, 37.4 ACRES, 1918.

Operation.	Date.	Total yield.				Per acre.			
		Man hours.	Value.	Horse hours.	Value.	Man hours.	Value.	Horse hours.	Value.
Plowing, disking, and harrowing seed bed					$49.56				$155.65
Planting					4.75				7.60
Harrowing corn					2.50				8.00
First cultivation					13.75				22.00
Second cultivation					12.51				20.00
Third cultivation					10.20				16.30
Husking					72.45				103.40
Total					165.72				332.95
									165.72
Machinery use									33.04
5⅜ bushels seed, at $8									43.00
Total cost									574.71
Cost to renter for each acre of corn he gets									30.73
Cost per bushel to renter									.55

Yield of 2,090 bushels on 37.4 acres; 1,045 bushels to renter. Oat stubble ground. Fourth crop from clover.

Mr. Funk. I also have a number of letters from gentlemen relative to the condition the farmers are in in Illinois, but I am only going to read one of those (reading):

1. What is your name and age and experience in farming?

My name is Henry E. Schmiedeskamp. I am a lawyer by profession, a graduate of the University of Michigan, residing at Quincy, Ill., of the age of 42 years. Prior to becoming a lawyer I was actively engaged in farming for some 15 years in Adams County, and have since leaving the farm been closely connected with farming as the owner of farms and engaged in the active operation of the same through a superintendent or manager. My father and I are now engaged in general farming about 3 miles south of Quincy, owning 146 acres of land of the value of about $300 per acre. We employ a superintendent on a salary of $57 per month and a commission on net profits of 10 per cent additional. We are engaged in general live stock and grain farming and are well equipped for that purpose with plenty of sheds and shelter for cattle and live stock and for our hay and grain. We purchase cattle in the fall and feed our roughage to them in the winter time, selling them in the spring to feeders who feed them corn and fatten them. We also raise about 100 hogs per year, raising two crops of hogs each year which we mature at about 200 pounds and usually sell on the August and April markets. We also raise sheep and sell the lambs on an early June market.

2. What is the cost of your equipment and the kind of equipment?

Owing to the high price of farm machinery, we purchased our farm machinery second-hand at public farm sales, and by using good judgment obtained a good line of all kinds of farm machinery at quite reasonable prices, at about 50 per cent of the new price. The cost of our equipment in the way of live stock and farm implements is about $5,000.

3. What percentage of your improvements do you consider necessary each year to keep same in repair and allow for deterioration?

About 8 per cent on improvements.

4. What percentage of cost of equipment is necessary for proper maintenance and deterioration?

About 15 per cent.

5. What are your principal crops?

Corn, wheat, oats, hay, soy beans, all of which is fed into live stock except the wheat, nothing being sold off the farm that can be fed up into live stock.

6. What is the total cost of production per bushel, ton, or pound?

That varies. The cost of production would be about 20 per cent less this year than last year, owing to lower labor cost on farm. The fixed cost, such as interest, taxes, repairs, etc., has increased the past year rather than diminished. We pay a rental of $12 per acre as an organization to ourselves as the owners of the land in figuring cost of production. For example, our wheat crop this year will average about 20 bushels per acre. The wheat is already sold on July market at what will net $1 a bushel after paying machine thrashing charges. This will leave about $20 per acre for the wheat land. The rental cost of the land being $12 per acre, it will cost at least $10 per acre to sow and harvest the wheat, so that the wheat at $1 per bushel has been raised at an actual loss. The oats is now selling around 30 cents per bushel. Our oats this year will make about 30 bushels per acre, which will mean a considerable loss on the oats land, as the land will not pay the rental value of the land. Our only opportunity to make any money will be out of the corn, which by feeding the same into hogs will probably make us some profit, but our farming operation for this year will be conducted at a loss of at least $1,000.

The CHAIRMAN. Mr. Funk, do you think it would be safe for us or for a business man to base any conclusion on those figures?

Mr. FUNK. Yes, sir; I do. I am not submitting anything here but what I feel is correct. I have thrown out a good many that I did not think were valuable.

The CHAIRMAN. I may be in error about it, but it seems to me the statements that are made there are of a rather indefinite character. However, you may proceed.

Mr. FUNK. They do not appear so to me. [Reading:]

7. How are your products marketed, direct, sold to local buyer, or through cooperative association?

Sold to local buyer.

8. How do the prices obtained for products this year compare with the price you received for the same products during the period extending from 1908 to 1913?

The prices of farm products are about the same as they were at that time.

9. What is the relative price of your products to-day compared with the necessities you buy for the operation of your farm as compared with the price of same articles during the period 1908 to 1913?

The price for the things we buy on the farm has more than doubled.

10. Are you able to get sufficient credit to successfully conduct your business?

Yes. Because of our general standing in the business world, we ourselves have no trouble getting what credit we need. We are personally interested in a number of banks as direcror or stockholder, and this of course gives us an advantage over the average farmer. In fact, our capital is such that we do not need to borrow. Our experience, however, being actively engaged in the banking business would indicate that the average farmer is having considerable difficulty obtaining sufficient credit to conduct his business and is required to market his product frequently at a loss because of inability to obtain credit. However, in this western Illinois country, we do not consider that the main difficulty is credit. It is purely an economic difficulty due to the inability to buy the supplies for the farm at a price which will enable the farmer to farm at a profit. Also, because of high freight rates, expenses of marketing, unstable market, and lack of a world market for all products, the American farmer is rapidly being driven into bankruptcy.

It is economically impossible for the average farmer to exist or to survive this period of adjustment until either the price of the things that he buys comes down or the price of the things he has to sell goes up. The trade balance is all against the farmer. It is my judgment as a lawyer, banker, and farmer that at least 20 per cent of the farmers of the Middle West will be bankrupt at the end of the next two years unless a better system of marketing can obtain, so that the American farmer has an opportunity to sell his products at a better advantage on the world market. With the Governments of England, France, Italy, and other European countries acting as a purchaser for their people, the little individual farmer has no chance to compete on the world market without some definite organization to sell his product as one organization to the buying organization of England, France, Italy, or Austria.

11. Would you favor a longer term of credit through the Federal reserve banks to farmers, extending same until the farmer can make a turnover of the particular crop financed?

Yes, along conservative lines. I would be in favor of the Federal banks extending credits to the local country banker, so that he in turn might extend credit to his

farmer customer. It is my judgment over years of experience that the local country banker is the friend of the farmer and that he is doing all he can to extend credit to him; but in order to do this he must be able to rediscount his farmers' notes to better advantage to the Federal reserve banks.

12. Under present conditions and prices will you be able to meet your necessary cost of production, overhead expenses, and taxes?

No, not by $1,000 on our 146-acre farm.

13. Do you know what percentage of your crop is necessary to pay the transportation of your crop?

It takes about 15 cents per bushel to pay the expense of freight and marketing on my wheat. I recently sold my wheat in June on a future July market and therefore know exactly what I am talking about.

14. Have you been unable to dispose of your crops at a time when prices were satisfactory because you could not get necessary cars for transportation?

Not on the grain markets, but on live stock markets I have lost as much as $3 per hundred on hogs because of inability to get cars.

15. What remedy would you suggest to alleviate and help the present deplorable conditions?

It is my judgment that either through private capital or through Government agency, an export trade corporation should be organized with representatives in the world markets to sell the product of the organized American farmer wherever it can be sold in any part of the world to the best advantage. Just as our manufacturers have their representatives in various parts of the world, so the American farmer, who is the largest taxpayer in the nation, should be entitled to the support, the counsel, and the advice of the National Government in marketing his product. It is the understanding of the writer that the Italian and Austrian Governments have their representatives on the Chicago market who buy for their governments direct, who in turn sell to the people of their country.

What chance has the little individual farmer with that kind of competition? The principle of collective bargaining has been recognized with reference to labor and must be recognized in a larger way than ever before with reference to the farmer. The organized farmers of the country must have an opportunity to market their product collectively as an organized agency and sell it at best advantage on the world markets. I would also suggest that gambling in grain and the products which the farmer sells should be prohibited by law. A farmer may ever so carefully calculate general conditions, say, for instance, on the wheat market. He may take the Government estimates on acreage or probable acreage; he may make all of his plans and calculations on the basis of what an intelligent business man would consider fairly accurate information, and then suddenly the bears on the board of trade by manipulation may just at the time when the farmer is required to market his product, or when he has it already on the railroads for market, suddenly drop the price 10, 15, 20 cents per bushel and wipe out his entire margin of profits before his grain can reach the markets. The manufacturers are all thoroughly organized in their trade associations and hold up the price of their commodities to protect themselves both in their purchases and their sales, but the American farmer has no organization to do this. Whether we like it or not, some organization of this kind is absolutely necessary to protect the farmer, and manipulation of grain markets must be prohibited by law. In other words, the American farmer must have a standardized market, a stable market, and the law of supply and demand must be permitted to control.

H. E. SCHIEDESKAMP.

That is just one letter out of a whole satchel full I have at the hotel, but I do not want to bother you with any more.

The CHAIRMAN. If you have other letters that you think it is desirable to file, they can be inserted in the record without reading. If you think that is sufficiently indicative of the situation——

Mr. FUNK. Yes, sir; that is sufficient as far as that point is concerned.

Along the line of what Mr. Schiedeskamp has discussed in his letter above, I received a telegram from a bank where I live this morning, since I came into the room. I will read that. I might make the explanation that I went into the bank the other day to get some money to come down here, and I mentioned to my banker that I was coming here. It seems he thought the matter over after I left there, and sent me this telegram:

BLOOMINGTON, ILL., *August 15, 1921.*

HON. EUGENE D. FUNK,
Care Frank H. Funk, M. C., Washington, D. C.

We understand you are in Washington to use your influence with congressional committee to relieve financial conditions of farmers. Wish to advise you that farm mortgages in Central States have more than doubled in past eight years over same previous period. Large numbers of tenant farmers and landowners with incumbrance are facing financial ruin. A great many will be compelled to quit farms this fall. Banks are getting no liquidation, consequently can make few new loans. Vitally necessary that you use your influence to relieve conditions at an early date.

FIRST TRUST & SAVINGS BANK,
W. J. CARTER, *Vice President.*

Here is another one from a gentleman in Omaha, Nebr., that also came just this morning:

OMAHA, NEBR., *August 15, 1921.*

E. D. FUNK,
Care Frank H. Funk, Congressman, Washington, D. C.

What our agriculture needs is not that the farmer has additional facilities for increasing his indebtedness but that artificial handicaps be removed so that there is a possibliity of profit in his vocation. There has been none during last 25 years and farm mortgage indebtedness in the best States of the corn belt has been greater each succeeding year since 1896 and at a constantly increasing ratio, as neither State nor Federal authorities have ever made a rational or sincere effort to secure amount of farm mortgages at any period.

Mr. FUNK. Please note, Mr. Chairman, that last sentence. The telegram continues as follows:

There is no way to estimate total increase. However, as Nebraska has less farm mortgage indebtedness per acre and the ratio of increase since 1913 has been less than that of adjoining States, it may be taken as a conservative basis upon which to make estimate for country at large. Official figures for 1916 are not available, but omitting these, the increase in Nebraska farm mortgage indebtedness during six years, 1913 and 1920, inclusive, is approximately $160,000,000, or an increase of over $1,300 per farm throughout the entire country. Owing to war restrictions on buildings and meager net farm returns the deterioration of permanent improvements on farms of the country have been more than enough to offset all additions thereto.

During last 20 years the number of people on farms has constantly been decreasing and the percentage of returns among those remaining has been increasing. Present labor and market conditions are adding a tremendous impetus to both these tendencies. As according to figures furnished by Department of Agriculture, both as to yield and farm prices, it would require three national wheat crops like that of 1920 or the entire grain raised in eight States like Iowa to pay wages of railway employees for a single year, why should not farm abandonment continue? Nothing less than a reduction of railway rates and railway wages equal to the advance made in each since armistice will check the growing depression in agriculture. Farmers are justly demanding that labor on farms shall receive remuneration equal to that in other industries.

WILLIAM STULL.

A second telegram from Mr. Stull, which is as follows:

OMAHA, NEBR., *August 16, 1921.*

E. D. FUNK,
Care Frank H. Funk, M. C.,
Washington, D. C.

Please add to my yesterday telegram that it would require an amount of money equal to their total mortgage debt to bring back and maintain virgin fertility to American farms. The farm is a factory converting the elements into foodstuffs. What is the value of a factory that after 50 years active operation, declaring no dividends and paying its operatives less than a living wage, finds itself in such condition that to avoid bankruptcy it must increase its bonded indebtedness?

WILLIAM STULL.

I have jotted down here a few items. I understand you are asking for suggestions, and I have headed these items "Constructive criticisms and suggestions."

The CHAIRMAN. We will be very glad to have them.

Mr. FUNK. Railroad rates are too high in proportion to the prices received for grain. It costs 47½ cents per 100 pounds, or 28½ cents per bushel, to ship wheat from Funk's Grove, Ill., to New York City. It is costing the farmer from $1.05 to $1.07 per bushel to produce the wheat at an average of 18 to 20 bushels to the acre, as I am able to show by figures submitted, and he is receiving at his station from $1 to $1.10 per bushel for his wheat.

The freight rate on corn is also 47½ cents per 100 pounds, or 26.6 cents per bushel, and we are offered 43 cents for our corn at a production cost ranging from 53 cents, on an average yield of 50 bushels per acre, to $1.45 on an average of 20 bushels to the acre.

Oats are the same rate as corn and wheat to the seaboard, 47½ cents per 100 pounds, or 15.2 per bushel, and oats are worth 25 cents per bushel, cost per bushel, 21 cents, or $8.61 per acre, on a yield of 40 bushels per acre.

These figures are not estimates; they are actual figures submitted to me by Mr. Harry Gehring, Galesburg, Ill., on July 11, 1921.

The cost of farm labor in 1920 in our section was about $80 per month, including board. The cost of farm labor to-day in our section is on an average $70 per month and board. The selling price of our oats in 1920 was 50 cents per bushel, and figuring a man's wages at $80 per month it took 160 bushels of oats to pay one man's wages for a month. This year, 1921, we are getting 25 cents for our oats, and we are paying our men $70 per month, or they are costing us $70 with board, and it requires 240 bushels of oats, as against 160 last year, to pay one man's wages for one month.

For corn in 1920 we were receiving $1.50 a bushel. We were paying $80 per month for men, and it took 54 bushels of corn to pay one man's wages for one month. This year, 1921, we are getting 43 cents for our corn, paying $70, and it takes 163 bushels of corn to pay a man's wages for one month.

In July, 1920, 1 bushel of corn would buy 5⅓ gallons of gasoline. Now a bushel of corn buys 2⅓ gallons of gasoline.

Last year it took 6 bushels of corn to buy a ton of soft coal. To-day it requires 16 bushels of corn to buy a ton of soft coal that is priced at $1.50 per ton lower than it was last year.

Last year it required 2½ bushels of corn to purchase a 48-pound sack of flour, at $2.25. To-day it takes 5½ bushels of corn to buy the same sized sack of flour at $2.65.

Last year in McLean County, Ill., a farmer could get a pair of good shoes for 10 bushels of corn. To-day he must give 20 bushels of corn for shoes of the same quality, although shoes are lower in price by about $3 per pair.

Last year a farmer could get a pair of shoes for one cowhide. To-day it takes one cowhide to pay for half soles and rubber heels on his old shoes. To buy new shoes requires 5 cowhides, or 23 calf hides.

Last year a farmer could buy a good suit of clothes for 50 bushels of corn, $65. To-day it requires 90 bushels of corn to buy a suit of like quality, at a price of $45. Clothes are made of wool. Perhaps a better comparison would be the pounds of wool necessary to buy this suit. Now, it requires the price of 180 pounds of wool to buy the same suit of clothes, which means the clip from about 20 sheep, and yet, I am told, a suit requires only about 3 pounds of new wool.

Last year the farmer bought 100 pounds of binder twine with 19½ bushels of oats. To-day the price of 100 pounds of twine equals the price of 55 bushels of oats.

Last year a set of farm harness cost an equivalent of 70 bushels of corn, with harness at $90. To-day it requires 130 bushels of corn to pay for the harness at $65. The price has gone down.

Last year 5 bushels of corn paid for 10 pounds of good bacon. To-day it takes 12 bushels of corn for 10 pounds of bacon.

Last year a Fordson tractor could be bought for 707 bushels of corn. To-day it requires 1,840 bushels of corn to get one, and yet the tractor has been reduced $260 below what it was last year.

Last year 500 bushels of oats paid for a binder; to-day it takes 800 bushels of oats. The price for the binder in 1920 was $250, and in 1921 it is $200.

Last year a Ford auto cost the farmer 560 bushels of corn, and they were selling Ford autos in our territory at $728.46. To-day he must give 1,129 bushels of corn for a Ford, and the price has been reduced to $564.85.

Last year a Buick car cost 720 bushels of wheat. To-day it will require 1,434 bushels of wheat. The Buick last year was $1,800, and this year $1,650.

Last year it took 20 bushels of corn to buy 100 pounds of sugar. To-day you can get 100 pounds of sugar for 12½ bushels.

I would like to take this opportunity to make a few remarks relative to the Department of Agriculture. For many years the Department of Agriculture has been attempting to give to the public reports or forecasts of the probable yields of our crops—wheat, oats, and corn. In looking over its reports, I have found that many of its forecasts have been too high. If such was the case only occasionally I might not criticize; but it does seem to me that at present its method used in making crop forecasts could be improved upon so that its reported estimates would be nearer the actual yield than they have been. I think there should be something done to correct the present system.

The present method gives the speculator an opportunity at the psychological period, when it is to his advantage, to "bear the market." Just about the time the farmer puts his grain on the market, or just previous to that time, those figures are published, and the speculator takes advantage of them. No doubt the speculator is aware that for years these statistics have been too large and he takes advantage of that fact.

Representative FUNK. I presume you come to the conclusion that they are too high by comparing them with the census reports, which in a great many instances are much lower than the figures published by the Bureau of Crop Statistics of the Department of Agriculture?

Mr. FUNK. Yes, sir. We have no other way of gaining any knowledge, except by referring to such reports.

Here is another suggestion, on the possibility of opening up foreign markets and the necessity of having some knowledge of the production of grains in foreign countries. It would seem to me that through our consuls, or through either the Department of Agriculture or the Department of Commerce, we should have a man located in every foreign country who could keep us directly in touch with agricultural conditions in that country. We have nothing of that kind at present, as I understand it. My observation of these

consuls in foreign countries, whom I have visited in the past, leads me to believe that many of them are not in a position to furnish us with sufficient information.

The CHAIRMAN. Heretofore we have had to rely very largely upon the crop statistics of the different countries?

Mr. FUNK. Yes; but you get them about three years after the crop has been consumed.

The CHAIRMAN. I was about to say that the machinery of the foreign countries for gathering statistics has not been very satisfactory.

Mr. FUNK. No, sir.

Another suggestion: In the past the Department of Agriculture has given attention almost entirely to production. Farmers are now asking for assistance in marketing their products. A farmer should be able to follow his finished product, not only to the wholesale markets, but to the consumer, and he is entitled to information as to why the consumer pays so much more than the producer receives for his grain and his live stock.

I heartily agree with the gentleman who preceded me and who referred to cooperative marketing. His argument was sound and logical.

One thing more about the Department of Agriculture, which affects large interests.

We have one man appointed as Secretary of Agriculture. He has under him men known as chiefs of bureaus in various subdepartments. The Secretary and practically all of those chiefs are obliged to be in Washington most of the time. From my experience and observation as a member in 1917–18 of the National Agricultural Advisory Committee I believe that a similar advisory committee could be of very great assistance to the Secretary of Agriculture. Such committee could be composed of men who would be located and live throughout the different States—not necessarily one from every State, but, say, 24 men from different sections of the country. These men would, in a way, be advisors to the Secretary of Agriculture. They would be in a position to receive first-hand information from their respective communities and could report from time to time to the Secretary; also they could assist in keeping farmers better informed regarding National and international agricultural policies and conditions. Furthermore, if a congressional committee felt that it needed advice and definite information as to agricultural affairs in different sections of the country, it could call on such men at any time. I believe that there are public-spirited men in the United States who are qualified and who would gladly serve as such an agricultural advisory.

It is a deplorable fact which exists that present conditions prevent surplus American crops reaching foreign markets without great loss to the producer. In the name of modern civilization the famishing millions of Europe and Asia should be saved from starvation and that speedily.

I do not know that I have anything further, Mr. Chairman.

The CHAIRMAN. We are very much obliged to you, Mr. Funk, I am sure.

The committee will take a recess until 10 o'clock to-morrow morning.

(Thereupon, at 12.55 o'clock p. m., the commission adjourned to meet at 10 o'clock a. m. to-morrow, August 17, 1921.)

AGRICULTURAL INQUIRY.

WEDNESDAY, AUGUST 17, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met at 10 o'clock a. m., pursuant to adjournment on yesterday, in room 70, the Capitol, Hon. Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order.

Mr. Campbell, the commission will hear you first this morning, and you may state your name and whom you represent for the benefit of the record.

STATEMENT OF MR. MILO D. CAMPBELL, COLDWATER, MICH., PRESIDENT NATIONAL MILK PRODUCERS' FEDERATION AND DIRECTOR OF THE NATIONAL BOARD OF FARM ORGANIZATIONS.

Mr. CAMPBELL. I might also say that I am connected in a personal way with the grange, and have been for 35 years, and am a member of the Farm Bureau. I have been also requested by Mr. Charles Barrett, president of the Farmers' Union, to speak for that organization.

I realize, Mr. Chairman, that there are many things being asked for by the farmers—through individual organizations, perhaps, and through their Congressmen—that can not be harmonized nor, perhaps, granted. I am not going to discuss them in detail. There are some things, however, that we believe as farmers are fundamental and that should be granted.

The cooperative-marketing bill or bargaining bill that we have been asking for for some years is now before the Congress. It has passed the House of Representatives for a second time. At the last session it was so amended in the Senate that it was much worse than no bill at all as far as the farmers were concerned.

The Volstead bill has been considered by a subcommittee of the Judiciary Committee of the Senate, and has been entirely changed by that subcommittee in its report to the full committee. They strike out all after the enacting clause—of the Volstead bill, I mean—and substitute a bill of their own that is, to our minds, very much worse than no bill at all. And we are sincerely hoping that the Congress will not pass that bill, and much prefer to remain in the condition we are now in than to have the bill as recommended by the subcommittee of the Judiciary Committee of the Senate, or if we can not get the relief we so much need and want.

There is an entirely mistaken idea on the part of many Members of the Congress and the public generally about the farmers' request

for this kind of legislation. As they construe the request, the farmers are asking for some special relief, for some special favors not granted to other branches of industry. That is a great mistake.

Discrimination against the farmer started with the passage of the Sherman antitrust law in 1880. It was not intentional that it should be discriminatory against farmers, but it so operates. The Clayton Act of 1914 undertook to exempt agriculture and labor from the operations of the antitrust law, and the Clayton Act still stands upon the statute books.

The discrimination that was against the farmer through the enactment of the Sherman antitrust law was that the farmers could not have any medium whatever of relief, nor any method by which they could cooperate, while it gave to every other industry ample means of cooperation through the corporation, a wonderful medium.

During the past year the farm stuff that was produced and sold from the farms of this country did not aggregate over $5,000,000,000—that is, products other than live stock—and probably about $3,000,000,000 of live stock were sold, as closely as it could be estimated.

Of course, the total value of the live stock upon the farms of the country was near $8,000,000,000, but that included all cattle that had been kept and were being kept, such as cows, etc., that are kept from year to year, and horses and other live stock that are kept over from one year to another.

The Secretary of Agriculture estimates that $9,000,000,000 of produce was grown on the farms of this country during the past year, but that estimate includes all that was fed to animals upon the farms and all that was consumed by farmers' families as well as that which was sold, so that we have approximately $5,000,000,000 worth of produce sold and $3,000,000,000 worth of live stock sold.

The CHAIRMAN. You are referring now to the crop of 1920, are you?

Mr. CAMPBELL. Yes; to the crop of 1920. And it will be less this year, considerably less. And that is without any medium whatever, such as a corporation, through which it can be sold cooperatively.

Let us turn over the leaf and see what has been done in the line of manufacture. The products of manufactures in this country during the last year—and, for that matter, the year before and for three or four years before that—have not been less than $50,000,000,000 a year.

The CHAIRMAN. Let me ask if you are including in that estimate the cost of raw material or including only the value added in the process of manufacturing?

Mr. CAMPBELL. Well, probably, if we should add the cost of all raw material and the selling value as the products went from the factory door—the finished product—it would amount to more than $50,000,000,000. But I think, Mr. Chairman, the value would not be as much as $50,000,000,000 without the cost of raw material included.

The CHAIRMAN. The real comparison there would be the value added by the factory rather than the total cost of the manufactured product?

Mr. CAMPBELL. Yes. And, as you no doubt understand, these are estimates. Take the city of Chicago, for instance, and I noticed the other day a press report from that city which claimed that the manufactures produced within that city were $6,500,000,000 a year—an amount almost equal to the entire products sold from the farms of the country during the last year.

These are astounding figures, and practically all those products are sold under the corporation plan, all the manufacturing industries of the country are incorporated and follow the corporation practice in the sale of their products.

The corporation is the medium we are all in favor of. It upbuilds our country. But the farmer can not use that medium. His property is in 6,400,000 units, and they have been nailed down by the Almighty, are spread over an area of 3,000,000 square miles, and are there fore all time—and it would be, as I said before, a sorry day, in my opinion, for this country if by any process or any means they could or, if they should, be run into corporate molds the same as other classes of business. The preservation of our country, the future existence of this Republic, in my opinion, depends upon keeping these units out in the country, the farm people out on the land and prosperous.

And, gentlemen of the commission, what we want is power to sell our products collectively. And we want to do it unhampered. We do not want to do it with the threat and menace constantly over us that we are violating the law.

Gentlemen, I do not want to take too much of your time, but I do want to analyze a thing that is pertinent, that is right before the Congress at this time, and the one thing that the farmers of this country are absolutely united upon, no matter where they may be toiling in this great land; and every farm organization, so far as I know is backing it. That is the bill that is now before the Congress and that will next be heard in the Senate. Mr. Volstead introduced the bill. We had a similar bill before the Congress at the last session, but it was so amended in the Senate, as I have stated, that it was not acceptable and none of the farm organizations nor any of the farmers, so far as I know, want it in that amended form.

The farmers of the country do not believe that they are violating the law; it is not that they want to violate any law, but they do not want the menace of the threats that are being made against them from all over the country, through middlemen wherever middlemen are touched or hampered in any way in their autocracy over farmers' affairs at this time.

I perhaps have seen more of the situation along this line in the country than many others, because, as president of the National Milk Producers' Federation for the last five years, I have been through these various fights that the farm organizations have had in an effort to sell their milk collectively. The public press has been used. It is more generous now to the farmer than it was in years gone by, and because I think the public press is becoming informed more fully and generally of conditions. But I see that Senator Walsh in his analysis of the Volstead bill, as contained in the report of the subcommittee to the full Committee on Judiciary of the Senate, cites the milk producers—and I want to take up a very pertinent thing he has discussed, because I know that legislators gen-

erally want to get at the right of a thing and want to get at the facts as they exist. He says that the grain growers and the cotton growers, and so forth, need have no fear; that they could not form a monopoly. Now, gentlemen of the commission, I do not like the apparent cunning of that statement. Apparently it was made for the purpose of appeasing the grain growers of the country and the stock raisers of the country in order to get their support of the amended bill that the subcommittee has prepared. As a matter of fact, there is not a farm organization in this country that would not be menaced by the amendment that the subcommittee has prepared, not one; there could not be. I do not mean to say that they could all be convicted. No; they could not be be convicted, but if it should become a law it would be a menace.

Senator LENROOT. Will you read the amendment?

Mr. CAMPBELL. Yes, sir; I have it here. The subcommittee of the Committee on the Judiciary of the United States Senate had under consideration bill H. R. 2373 and recommended the following as a substitute:

AN ACT To authorize association of producers of agricultural products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively handling and marketing in interstate and foreign commerce such products of persons so engaged and in processing or preparing such products for so marketing the same. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes: *Provided, however,* That such associations are operated for the mutual benefit of the members thereof. as such producers, and conform to one or both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein; or

Second. That the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum.

And provided further, That the association shall not deal in products of nonmembers to an amount greater in value than such as are handled by it for members.

Nothing herein contained shall be deemed to authorize the creation of, or attempt to create, a monopoly, or to exempt any association organized hereunder from any proceedings instituted under the act entitled "An act to create a Federal Trade Commission, to define its powers and duties, and for other purposes, approved September 26, 1914," on account of unfair methods of competition in commerce.

The CHAIRMAN. Here is a copy of their recommendation if you wish to have it before you, Senator Lenroot.

Senator LENROOT. I thank you.

Mr. CAMPBELL. And I have Senator Walsh's analysis. Here is his language:

Inasmuch as it is utterly impossible to establish a monopoly of any of the ordinary farm products—cereals, cotton, live stock, etc.—an inhibition of monopoly must be unobjectionable to the producers of such. Moreover, your committee is entirely satisfied that they have no desire or purpose to establish a monopoly. Why anyone should insist, under these circumstances, on the enactment of a law which, in terms, would authorize them to do so, your committee finds it impossible to understand—

In other words, appeasing that class and saying, in effect: "We would not harm you"—

It is possible, however, to establish a monopoly with respect to farm products which can be produced profitably only in a very limited area, or in the case of highly perishable products, like milk, which will not stand shipment long distances. It would not be in the public interest, your committee believes, to permit all producers of milk within the area from which one of our great cities is supplied to effect a single organization having thus a monopoly which might or might not be utilized to exact extortionate prices of consumers.

In other words, during the three days I stayed with that committee and listened to the statements that were made he constantly used as an illustration the situation right here in Washington. He said, in substance, "Suppose the Maryland people over across the line have a milk producers' organization and the Virginia people have another, both selling milk here in Washington. And suppose these two organizations should unite in one organization. Do you want that kind of monopoly?" He kept asking the question: "Do you want that kind of monopoly?" That was the query he propounded time and again. We answered by asking a question: "What kind of a monopoly do you mean, Senator? Do you mean that that alone would be sufficient to condemn it, that they should unite their forces?" He would not answer. He simply used the word "monopoly" constantly—monopoly monopoly, monopoly. He wanted to know whether such a monopoly, or possible monopoly, should be left in a position where it could not be proceeded against. But he would not say whether it was a good monopoly or a bad monopoly.

I know he asked me when I was before the subcommittee in substance: "Mr. Campbell, do you want a monopoly?" I said in substance: "Possibly in the sense you imply, no; but if it is in the sense that we can reduce the price of milk to the customer and improve the price to the farmer by cutting out a considerable amount of the middleman's expense, unnecessary costs both to the farmer and the consumer, yes." But Senator Walsh would not tolerate that proposition; he would not discuss it for a moment, and he does not discuss it here in the subcommittee's report.

Here you have a territory that supplies Washington that is not 15 miles in all probability away from your city, a territory that is no farther distant than that supplies the city of Washington with milk. Just beyond there are unlimited quantities of milk. The New York Dairymen's League ship milk into New York City from a distance of 500 miles. Why, gentlemen of the commission, within 50 miles of Washington there is enough milk to supply 5, yes 10, cities of the size of Washington.

We asked, in substance: Do you mean to say that there must be two separate organizations maintained in your community, with all the consequent overhead expense and duplication of routes and costs and expenses of various kinds, including depots, sets of officers, additional delivery wagons and drivers, and so on? And do you mean to say that if the production and delivery of milk were under one organization and there was only one milk wagon going down one street or going to a tenament house with milk there would not be a reduction in expense to the producer and consequent reduction in price of milk to the consumer? Do you mean to say that if a

vast portion of the present expense could be done away with the farmer would not get a better price for his milk, a living price, and the consumer at the same time furnished milk at a fair and proper price? And if these expenses could be cut down, as they could and would be, and the farmer would receive a fair price for his milk, do you mean to say that it would do any harm to the consumers of milk or that it would be in fact a monopoly? Who is there who should not wish to see production and delivery costs cut down as much as possible, to the end that the producer may receive a fair price for what he produces and the consumer furnished products at as low a price as possible consistent with the cost of the service rendered? But Senator Walsh would not discuss this question at all. He flew into a rage and said it would be a monopoly, and continued to say monopoly, monopoly, monopoly.

What we say is this—and as president of the National Milk Producers' Federation I challenge proof to the contrary: That we are selling cooperatively practically one-half of the farm products of this country that are sold cooperatively, perhaps $500,000,000 in value, not collectively but as units, 40 or 50 different units, and wherever we can get control we are reducing the price to the consumer, because we are cutting out these multiplied and extravagant expenses.

Now then——

Senator LENROOT (interposing). Let me ask you this: How do you reduce the price to the consumer, if you do?

Mr. CAMPBELL. Through several means. In the first place, it increases our quantity. We are producing more milk than can be consumed in the country, by far. And I will say this—and I challenge Senator Walsh or any other man in the United States to name a single place or time within the last five years where through farmers' cooperative organizations milk has been sold by farmers at an inordinate price or unreasonably enhanced price, or, in fact, at any price above what it should be sold for. There is happening right now in the city of Chicago another illustration, and I want to repeat it because you will probably hear it commented upon on the floor of the Senate. We have been through a continuous fight in Chicago. It started three or four years ago. Our people were arrested and thrown into jail. We have stood in the front-line trenches in the fight for cooperative bargaining in this country. I sat for days and days in Chicago while they were trying to impanel a jury to try the farmers there three years ago. And if I am not taking too much of your time I want to tell you just a little about that matter, because it is only one of the many instances the farmers have gone up against.

Some farmers that supplied milk to the city of Chicago, none of them living in Chicago and but few, if any, residing in Cook County, met in a little church in the city and talked over what they thought would be a fair price for their milk. That is all they did. There were 100 or more of them present, and they talked the situation over, and each man present expressed his opinion. They finally left the matter to a committee or to their officers to make the best bargain they could with the dealers. All they did was to express their opinion as to what they thought would be a fair price for their product—and I forget what it was now, but at any rate it was way

below the cost of production. Those men were indicted in the city of Chicago for that act. Their meeting had been held there in the city and there they were indicted. And they were haled into court, and after 18 months or more they were put on trial. I was present and attended that trial, not as a witness but as an interested observer and listener. They were several weeks—I have forgotten the number of weeks, but perhaps seven weeks—getting a jury to try those men. The district attorney and his assistants would ask each man drawn on a panel with a view to sitting on the jury certain questions, and no man was allowed to sit on the jury unless he was a married man and had a family and bought milk of those that came in from outside the city. If he had any relatives that were engaged in farming he was stricken off. A juror had to be that far from every possible interest or connection; in other words, their interest had to be as far as possible removed from anything connected with the farmers' side of the matter. Those farmers were tried by people who were buying milk from the farmers being tried, and who, quite naturally, wanted to get cheap milk; men who had families to support, and who needed milk for that purpose, and who had no relatives that were farmers or interested in farming.

Finally they got a jury made up largely of laboring men—a class of men particularly interested in getting milk as cheaply as possible. Those farmers were tried before that jury, but what was the result? The jury brought in a verdict, I think, within 30 minutes after the case was submitted to them, and that verdict acquitted every man indicted.

Senator LENROOT. What was the defense?

Mr. CAMPBELL. The defense was that those farmers were producing milk and selling it far below the cost of production. They did not deny that they had met together and talked over and discussed what they thought was a fair and reasonable price for them to get for their product.

Senator LENROOT. Did they admit that there was a monopoly existing?

Mr. CAMPBELL. There was no monopoly.

Senator LENROOT. That was their defense—that there was no monopoly?

Mr. CAMPBELL. Yes, sir. But the charge was that there was a conspiracy to enhance the price of milk.

Senator LENROOT. I want to say preliminarily that I do not believe the Senator [Mr. Walsh] objected or would object to what you explain you are trying to accomplish; but, on the other hand, the bill as it passed the House expressly permits, does it not, a monopoly, except as the Secretary of Agriculture may regulate prices?

Mr. CAMPBELL. Yes; I am inclined to think that might be true—I mean, it might permit what you perhaps would call a monopoly.

Senator LENROOT. I am speaking of not what might result from it; but the bill does permit a monopoly, does it not?

Mr. CAMPBELL. It depends upon what a monopoly is.

Senator LENROOT. Well, we will say a monopoly as well defined in the law.

Mr. CAMPBELL. I do not know about that.

Senator LENROOT. Attempted monopoly is very much in the twilight zone, but a monopoly as such is definitely and clearly defined.

Mr. CAMPBELL. Well, a public service corporation is a monopoly in a city.

Senator LENROOT. Certainly; and so is the holder of a patent—he has a monopoly.

Mr. CAMPBELL. Yes, sir; he has a monopoly.

Senator LENROOT. Assume that here is an agricultural product that might in some particulars become a monopoly?

Mr. CAMPBELL. All right; let us assume that; but I do not admit it.

Senator LENROOT. That is what I mean.

Mr. CAMPBELL. But it is not a monopoly. Take Senator Walsh's contention: Is it a monopoly because I find out that my milk driver——

Senator LENROOT (interposing). Let us take another case: Let us take one that comes to us the most frequently, that of the Raisin Growers' Association.

Mr. CAMPBELL. All right.

Senator LENROOT. I do not know what the fact is, but let us assume that the Raisin Growers' Association becomes a complete monopoly, possibly on account of the restricted area in which raisin grapes may be grown as the situation now exists, although I am not saying that is a fact. The Volstead bill as it passed the House would remove that association from the category of a monopoly and would relieve it from any of the penalties of the antitrust law.

Mr. CAMPBELL. No; I beg to differ with you on that, as I heard all that argument.

Senator LENROOT. It would remove it from the Sherman antitrust law.

Mr. CAMPBELL. No.

Senator LENROOT. Well, that is what I want to get at.

Mr. CAMPBELL. I would like to tell you about it if I can do so and not take too much of your time.

Senator LENROOT. I am not asking for the fact, but I am assuming for the sake of the argument that the raisin growers will in the future be able to effect a complete monopoly.

Mr. CAMPBELL. Oh, well, if that could be true, yes; I admit that.

Senator LENROOT. Then, do you think that the Congress should give a privilege to create a monopoly to one class of people when it makes it a criminal offense for others to do the same thing? That is what is troubling the most of us here in Congress.

Mr. CAMPBELL. I wish I might illustrate that point. Here is an airplane. You have a law against tresspass in this country, have you not?

Senator LENROOT. Yes.

Mr. CAMPBELL. It is a general law. There is a general law against trespassing on real estate. Every airplane that flies over this city commits a great many trespasses in every flight that it makes.

Senator MCNARY. Theoretically, under the common law, but——

Mr. CAMPBELL (interposing). Yes, sir; theoretically.

Senator MCNARY (continuing). But not so in fact.

Mr. CAMPBELL. Very well, that is just as far-fetched as this law against the farmer, exactly as much. I know exactly about the raisin growers' situation—well, I do not know all about it either, except as I heard about it—and I am not defending a monopoly either in the case of the raisin growers or anyone else, but I want

to say that Mr. Preston, who sat by the side of Senator Walsh all those three days, is attorney for the raisin packers of California, the very fellows that crushed the raisin growers out of existence, and through whose efforts the raisin business there went down and down and down for years. Those packers were getting their raisins cheaper and cheaper until the price dropped down to about a cent a pound, and the raisin-grape growers were quitting business, and their vineyards were being extinguished.

Then this other organization grew up, but it is not such as we ask for. It was a regular corporation, and they sold stock to bankers and everybody. We do not want anything of that kind at all. The raisin business of California is intrastate anyway, being within the boundary of California. And they defy any law the Congress may enact, as far as they are concerned, because they are all in California. But the facts are, if you will read the story of President Giffen and others, and it is a wonderful story, that there are 2,000,000 acres that can be put into raising grapes, and yet there are only 300,000 improved. But I am not talking about that.

Senator McNARY. Let me get a picture of what is in your mind which will clearly indicate to us your view of the character of the matter you are discussing. Let us take what are called Italian prunes, where grown in a limited district—and this is assumed, because they can only be grown in certain parts of the West. They are picked in the fall and packed and remain in storage indefinitely without deterioration. After those prunes mature they are brought in by farmers to cooperative organizations and pooled. The prune grower receives some percentage, perhaps 75 per cent of their value, in the fall. The manager of the organization may see that the market is low, but he knows some of the prunes must move, but he holds them until December or perhaps January and sells them to one individual, we will say; but he keeps them back, and by the process of keeping them back the price steadily increases, and finally they are all sold in bulk at a much enhanced price over what they would have brought in the fall if they had gone immediately into the channels of commerce instead of being pooled. Do you think that is a monopoly?

Mr. CAMPBELL. That might be a monopoly.

Senator McNARY. Is that something that ought to be legislated against?

Mr. CAMPBELL. I think possibly this bill would provide for it, absolutely would provide for it.

Senator McNARY. There is no question but what that situation could not have been reached by the Volstead Cooperative Act.

Mr. CAMPBELL. Why not?

Senator McNARY. Because, as I see it, the case I have cited is an infringement upon the Sherman Antitrust Act.

Mr. CAMPBELL. Why does not the Capper-Volstead Act cover it if any law covers it?

Senator McNARY. Because it permits it.

Mr. CAMPBELL. Have you read Mr. Volstead's reply to Senator Walsh's statement?

Senator McNARY. No; I have not.

Mr. CAMPBELL. I wish you would read that.

Senator McNARY. That is the last bill you are talking about.

Mr. CAMPBELL. Yes. Oh, you are talking about the first bill?

Senator McNARY. Yes.

Mr. CAMPBELL. Oh, well, I can not say as to that.

Senator McNARY. Do you think a transaction of that kind should come within the inhibition of the law?

Mr. CAMPBELL. I believe this——

Senator McNARY (interposing). Will you answer that question?

Mr. CAMPBELL. You are asking me a question I can not answer by a simple yes or no.

Senator McNARY. Very well.

Mr. CAMPBELL. I am not in favor of any iniquitous monopoly of any kind, any iniquitous monopoly. I think there is a difference between what might be called monopolies. I do not think we should wait until a farm organization has been haled into a United States court for trial on a charge of conspiracy, with a penalty facing the organization of having to pay a $5,000 fine or its members imprisoned for a year; I do not think we should wait until that time before taking the matter up and knowing definitely whether we are violating any law or not—I think the same rules that are applied by the Federal Trade Commission should apply here. We are not asking anything in this bill at all except what has been adopted; only in this case you have used the Secretary of Agriculture instead of the Federal Trade Commission.

Senator LENROOT. The Federal Trade Commission does not exempt anybody from the antitrust law.

Mr. CAMPBELL. Not at all, nor do we.

Senator LENROOT. You exempt all cooperative organizations.

Mr. CAMPBELL. We exempt them, but the Federal courts can enforce all rules and orders and laws, and so forth.

Senator LENROOT. You are repealing the Sherman antitrust law as far as these cooperative organizations are concerned and providing a new method of trial.

Mr. CAMPBELL. That is true.

Senator LENROOT. If this is done in your case why should not it be done in every case; why does not it mean a repeal of the Sherman antitrust law?

Mr. CAMPBELL. Because, as a matter of fact, after 31 years of that law upon the statute books you have never enforced it against any corporation.

Senator LENROOT. Are you in favor of a repeal of the Sherman law generally, is what I am coming to?

Mr. CAMPBELL. Yes; I might say that personally I am. I do not know whether the farm organizations would be in favor of it or not, but personally I am. I do not think it amounts to a snap of the finger.

Senator LENROOT. You personally would advocate a repeal of the Sherman law and any control of prices to prevent the charging of exhorbitant prices, is that true?

Mr. CAMPBELL. I want governmental control, and we are asking for that.

Senator LENROOT. I understand that.

Mr. CAMPBELL. We are asking for that, Senator, but at this time, right now, the farmers are in absolute need of this very legislation. I began to tell you what was happening in Chicago right at this time——

Senator LENROOT (interposing). I would like to follow this up for a moment.

Mr. CAMPBELL. Very well.

Senator LENROOT. There is a very clear distinction in my mind between partial restraint in trade or conspiracy to enhance prices and effecting a complete monopoly. Is not that true, to your mind?

Mr. CAMPBELL. I have not finished anything, scarcely, that I started out to say. I am afraid I will forget to say what I started out to say if I am interrupted. I want to take Senator Walsh's argument here, because he has given the preparation of it a good deal of time and thought, I take it. Senator Walsh says the area that is supplying the city must not be restricted; that we must not cooperate; that we must not get together in any area that is already supplying a city with milk. See how puerile that is. That makes everyone of us——

Senator LENROOT (interposing). Let me ask you there——

Mr. CAMPBELL (continuing). Just a moment. If half a dozen farmers out here undertake to get together collectively so that they may get a fair price for their milk—and I do not deny that we want to get a better price, for we are selling our milk for a dollar a hundred less than it costs to produce it now; and I know about that because I am a milk producer myself, and they are doing it all over this country. The drivers—not the drivers, but the dealers are the fellows who have a conspiracy, and just the moment we get together where we can possibly control our own milk and shorten the distance between the farm and the consumer's table, just that moment we are threatened with prosecution, and have been threatened all over the country, and Senator Walsh takes the dealers up and defends them, and says we must not be allowed to do any of these things.

Now, in Chicago they started a cooperative marketing association three or four years ago. They have sold their stock to the farmers, and they have undertaken to pool their product. The great problem we have is to take care of the surplus milk which the city people do not use. We have a surplus, and what to do with that surplus is the problem. The farmer out here who sells his whole milk has to have a little more for it, because he has to have tuberculin-tested cows, etc. He does not know what to do with the surplus, and it goes into butter and cheese. And they get a little less for that.

The question of disposition of the surplus milk is a difficult one. In Chicago they got their organization formed at great sacrifice to the farmers—a $500,000 corporation, a cooperative organization. And they started in last year to buy the milk of the farmers. Now, they said, we will take all your milk, boys; all of it, and you will all get the same price for your milk.

Well, the farmer has to have a little advance on his milk; he can not wait until it is all sold; he must have his money. And the officers went to the bank and borrowed money and began to buy milk, and they bought and advanced for it, and then the prices went down; there is so much competition around there that the competition forced the milk down. They took out a margin of 10 cents a hundred from the farmers and said, "This is a fund with which we will pay the fellows that put their milk into cheese and butter

and take it off the whole milk, so as to equalize the thing." And they found, after five or six months, that they were in debt approximately $860,000. They had paid the farmer too much.

Everything was on the down grade in prices, and they found they had a deficit. And they got together and said, "Boys what are we going to do?" There are 15,000 or 16,000 of those farmers there, and they voted that they would let the officers take out 50 per cent of their milk checks for a couple of months. I want to illustrate what we are up against, Senator. They started in, but there were a lot of farmers, just as we have in all organizations, who said, "Here I don't want to take $1.15 for my milk." These dealers, a lot of them are offering me $2. One dollar and fifteen cents is the scheduled price by the organization, and they said, "If I can get $2 or $1.75, I am going to let the other fellows pay these debts." So they got into collusion with the dealers. The organization heard of it and said to the dealers, "Do you expect to continue to buy of us?" "Certainly. You have got to sell to us just as cheap as anybody else." The officers said, "If you are in collusion to break up our organization and that is what you will do, we will not sell our milk to you."

And then the newspapers began to say that this cooperative marketing association was in collusion with some of the fellows to increase the price; that these dealers could get milk for $1.75 a hundred, and were being charged $2.35 a hundred by this cooperative association while the market was $1.75. And now they are trying to indict them in Chicago, under a State law, and having found that impossible they are after them under the Federal law, with Mr. Clyne.

Senator LENROOT. What interstate commerce is there in that transaction?

Mr. CAMPBELL. Oh, it comes from Indiana and Wisconsin and Illinois, and I guess some from Michigan. Oh, yes; it is all mixed Senator.

We have not been convicted—no farmer has been convicted. We have been through trial after trial, but no farmer has been convicted. But we have spent hundreds of thousands of dollars in defending ourselves against these dealers who work through the newspapers on the officers of the cities. Now, we have a lot of fellows in the cities that want to be mayors or city attorneys, and they begin to fill up the newspapers that they are after the milk fellows. I defy anybody to find a place in the United States where the cooperative associations have charged even the cost of production of their milk. We have been hoping against the day when we could do it. But the farmers are scared to death, and they dare not go ahead with any sort of enterprise that will look to the shortening of the distance between the producer and the consumer.

Now, I do not know that this bill of Mr. Volstead's, as prepared, is the only bill. It was not the bill we wanted. We wanted to be absolutely free, and we changed and changed, and have been willing to accept anything that would be helpful. But this substitute bill that we have now, that Senator Walsh—this amended bill that is before the committee, or will be probably, is certainly one that we do not want; and we beg of you, if you can not give us the bill that the farmers want, we beg of you do not pass this, because it is a menace everywhere.

Senator LENROOT. Now, with reference to this substituted bill, you are brought within the Sherman Act under this bill, if there is an attempt to create a monopoly. Now, of course, under the present interpretation of the Sherman law any unreasonable restraint of trade is a violation of the law, although it may fall far short of a monopoly.

Mr. CAMPBELL. Senator, I would like very much to have you know what is in this paper. I do not want to take the time to read it to the committee.

Senator LENROOT. I have read the bill.

Mr. CAMPBELL. I would like very much to have this printed.

The CHAIRMAN. Without objection it may go into the record.

(The paper referred to is here printed in full, as follows:)

NATIONAL BOARD OF FARM ORGANIZATIONS,
Washington, D. C., August 9, 1921.

To the Mailing List:

Congressman Volstead, chairman of the Judiciary Committee of the House and joint author of the farmers' national cooperative marketing bill, has prepared a most striking statement with reference to the report of the Senate Judiciary Committee on H. R. 2373.

This statement, which Mr. Volstead prepared at the request of the National Board of Farm Organizations, has been furnished with his comment, "You are at liberty to use this in any way you see fit."

The captions to the paragraphs of Mr. Volstead's statement have been put in by the National Board of Farm Organizations office.

CHAIRMAN VOLSTEAD'S STATEMENT RE SENATE AMENDMENTS TO COOPERATIVE MARKETING BILL (H. R. 2373).

Senate amendment gives with one hand; takes away with the other.

The following suggestions are submitted in reference to the report of the Senate Judiciary Committee on H. R. 2373:

The amendment recommended by the committee to section 1 of the bill making farm organizations subject to the law against monopolies would no doubt have the effect of taking with one hand what is supposed to be given with the other, and would leave the legality of these organizations in as great if not a greater doubt than at present.

STATUS DOUBTFUL UNDER SENATE AMENDMENTS.

No one could tell the status they would occupy. The Supreme Court has held in the steel corporation case and other cases that it is not the size of the corporation which makes it a monopoly but acts such as combining with other corporations for the purpose of controlling in whole or in part any product. As each individual farmer is a separate business unit that can not legally combine if his purpose is to control the supply in whole or in part, no such organization could legally operate under such a provision. It must be evident that this amendment will nullify the act, as no association can be formed and be effective that does not control a substantial part of the supply of its products in the locality where it may operate.

SENATE SHOULD NOT CAMOUFLAGE INTENTION.

The natural and inevitable effect of cooperative farm associations always must be to lessen competition among the farmers in the sale of their products, and to do that they must control the sale of a certain amount of such products. If they are not to be permitted to do that the Senate might as well say so in so many words and not camouflage their intention by pretending to favor cooperation. Every such cooperative association must have in it an element of monopoly if it is to serve any purpose. There is no good reason that I can see why each farmer in a cooperative organization should not be dealt with, treated, and considered the same as if he was a stockholder of an ordinary corporation, and why they should not have the like power to act together.

Many corporations have tens of thousands of stockholders, and the number they may have is unlimited. If the farmers can not offer their products for sale in cooperation with each other they are absolutely at the mercy of the buyers that buy collectively as the representatives of vast aggregations of stockholders.

CORPORATIONS FAVORED AT EXPENSE OF COOPERATIVES.

The Sherman Act does not contemplate the dissolution or destruction of a corporation legally organized because it may violate the law, but directs that it be punished by fine and enjoined from continuing in any unlawful course. The corporation itself remains intact as a legal entity with power to protect the property of its stockholders and continue to prosecute its business in a legal way. I am not aware that in any case has the Supreme Court ever dissolved a corporation violating the Sherman Act; it has simply disolved its combination with other corporations. Let us assume that one of these farm associations after being organized should do any act that would prompt a court to declare it a monopoly. In what condition would it be if this amendment is adopted? Clearly the entire association would be illegal, because its very existence will be conditioned upon a strict compliance with the limitations prescribed in section 1 of the bill. As a consequence each farmer in the association would be guilty, though innocent of any intentional wrongdoing. In that respect this scheme would differ radically from the law applicable to ordinary corporations. A business corporation legally organized is treated as a person. Its acts, and not its life is threatened if it violates the law, and the individual stockholders in it are not liable unless they directly participate in the violation.

JOKER IN SECTION 1 OF SENATE BILL.

With or without the monopoly amendment to section 1 the effect of striking out section 2 of the House bill makes these associations liable to prosecution under both sections 1 and 2 of the Sherman Act, and unless it is the intention of the Senate to hand the farmers a lemon there is absolutely no excuse for inserting the joker in regard to monopolies in section 1 of the bill. While Congress views with complacency if not with pride, business corporations whose size bestride the land, and whose prestige is said to even awe our courts, it seems strange that there should be such an awful scare of these loose and always inefficient organizations.

SETS UP STRAW MAN TO KNOCK DOWN.

The criticism of section 2 of the bill contained in the Senate report confessedly belabors a straw man. In the first place it admits that the proper construction of the language of the section does not give the Secretary of Agriculture power to fix the price of any product, but it proceeds to argue that if it did that remedy would be worthless. The merits of the section receive scant attention. So far as I am aware no one intended to give the Secretary of Agriculture power to fix prices of any agricultural products. The order that the Secretary is authorized to make is against monopolies and restraints of trade and commerce. The element of price can only be considered for the purpose of determining if the evil sought to be remedied is of such a character as to affect the public. If the association keeps strictly within the provision of section 1 it can not be proceeded against unless it so monopolizes or restrains trade and commerce as to unduly enhance the price of the product it deals in. If it does that, however, the Secretary of Agriculture may issue an order to cease and desist from monopolizing and restraining trade and commerce. That is the language of the section. That does not mean that the Secretary must simply repeat the language of the statute and that he can not specify the particular acts that may be forbidden. This language has had ample judicial interpretation. It was taken from the Federal Trade Commission act. The Federal Trade Commission has repeatedly issued orders to cease and desist from all sorts of specific acts deemed by it to be unfair methods of competition or in violation of the Clayton Act. When such an order reaches a court it may under the bill be enforced with the same power as that possessed by courts under the Sherman Act. The court may affirm, modify, or set aside the order

of the Secretary, issue a temporary injunction, and grant any other appropriate relief.

It has been suggested in some quarters that the remedy provided for in section 2 is too slow. Is 30 or 60 days too slow as applied to the farmers, while 2 to 10 years is the usual time for a prosecution against an ordinary corporation? Under this bill as soon as the order to cease and desist has been filed in the court a temporary writ of injunction may issue restraining the acts of which complaint is made. Is there on record a case where the acts alleged to be a violation under the Sherman Act were enjoined before final termination of the action?

FEAR OF MILK MONOPOLY UNJUSTIFIED.

In the Senate report fear is expressed that milk may be monopolized. This fear, however, finds no support in the hearings. The Dairymen's League, an organization said to monopolize the milk supply of New York City, consists of 90,000 farmers operating under New York and Pennsylvania laws legalizing such associations. Despite the charges made against it, that organization was not able to secure during the month of June of this year more than 4.6 cents per quart for its milk, though the consumers were compelled to pay 14 cents for it.

CALIFORNIA RAISIN GROWERS.

The argument against the bill based on the methods pursued by the raisin growers of California is beside the question, as this bill if passed will not legalize its methods or permit it to operate. The attorney for that association appeared before the subcommittee which considered this bill in the Senate Judiciary Committee and disclaimed any interest in the legislation. There is a very good reason why the raisin growers are not interested. They claim to be beyond the reach of the Federal Government, because their industry is wholly within the State of California. If they can maintain that claim to exemption from the Federal antitrust laws they would not want to come under the provisions of section 2 of this bill, as under that section they might be proceeded against and the methods they are pursuing enjoined.

CIVIL, NOT CRIMINAL, PROSECUTION USUAL.

Section 2 was inserted in the bill for the purpose of providing a summary remedy against any association that by monopolizing the supply or restraining trade oppressses the public. It was believed that under the provision of that section a much more effective and prompt remedy could be secured than under the Sherman Act, and that at the same time this remedy would be more acceptable to the farmers, as they can not afford to hire expensive lawyers to keep them out of trouble. There is no good reason why the criminal penalties should be insisted on against this class of organizations while labor organizations are practically exempt from the Sherman Act, and in practice the ordinary corporation is nearly always sued civilly and not criminally for violating this law.

FARMERS DO NOT DESIRE TO OPPRESS PUBLIC.

The bill does not seek to give the farmers power to oppress the public. It does not legalize monopoly or restraint of trade that enhances the price of any product beyond its reasonable value. It provides as to organizations that come within the provisions of section 1 not the remedy of dissolution and destruction of the farm organizations contemplated under the amendment of the Senate Judiciary Committee, a remedy that will destroy their credit and cripple their activities, but one under which the association may be promptly restrained from doing any act that will oppress the public.

CONVENTION PROMISES, ETC.

Both the Republican and Democratic national conventions promised the farmers legislation that would permit them to form these associations, and practically every civilized country permits their successful operation. Congress ought to pass appropriate legislation for that purpose. The bill passed by the House has the unanimous indorsement of farm organizations.

Senator LENROOT. Now, what I am getting at here is this: Under this amendment it is possible, at least, that you would still be subject to the same harassing and danger of indictment upon a charge that you were attempting to create a monopoly through your corporation, although none would be created in fact. But if this is amended so that it would only leave the Sherman law applying to actual monopoly, I would like your view of it.

Mr. CAMPBELL. Well, that leaves it where we are at all times subject to a district attorney in New York City or Chicago or any other place; and you gentlemen know what that means to the farmer to say, "Here, you are in a cooperative organization and every member of that cooperative organization and you, Mr. Farmer—not your officers, but you individually—are liable to be haled into the United States court—perhaps hundreds of miles away—to defend yourself against a charge that you are a member of a monopoly—a monopoly that you don't know anything about, only that you are a member of it."

Senator LENROOT. That is another point. But you agree, do you not, that criminal laws that exist to prevent the creation of a monopoly ought not to exempt any class from the operation of that law?

Mr. CAMPBELL. You were not in, Senator, when I began my remarks. I do not want to repeat them, but we are not asking any privileges.

Senator LENROOT. That is what I am getting at.

Mr. CAMPBELL. Let me say the discrimination exists in the Clayton Act and not in the Sherman Act. That is where the discrimination is. We are asking that the road be cleared, that is all. If we have the same privileges that corporate stockholders have, we will be satisfied; that is all we ask, that we have the same privileges that corporate stockholders have.

Senator LENROOT. I think you ought to have that. That has been my position all along, that you should have the same privileges as the stockholders of a corporation have. But if a corporation is a monopoly it is still subject to the Sherman law, although it is a corporation.

Mr. CAMPBELL. Yes, but the stockholders——

Senator LENROOT (interposing). And any stockholder who is guilty of bringing about a monopoly is also guilty. The stockholders who are not guilty, of course, can not be held.

Mr. CAMPBELL. Yes, Senator; but what we want——

Senator LENROOT (interposing). Now, are you not going beyond the rights of stockholders of corporations when you ask that you be exempted from the Sherman law for a complete monopoly?

Mr. CAMPBELL. We are exempt now if the law means what it says. We are asking that a clarification be made under the Clayton Act. It is the Clayton Act that brings us in; not the Sherman Act.

Senator LENROOT. You do not mean that you are exempt under the Sherman law, where the members of an organization——

Mr. CAMPBELL (interposing). No; I mean that agriculture is exempt. I think our cooperative organizations wuold be exempt under the Clayton Act.

Senator MCNARY. Have you capital stock?

Mr. CAMPBELL. No; that Chicago cooperative organization has.

Senator MCNARY. Is your concern conducted for profit?

Mr. CAMPBELL. No; not at all.

Senator MCNARY. Is it your idea that you should divide the earnings among the members of the organization and thereby exempting them from the payment of charges that the management of other organizations may entail?

Mr. CAMPBELL. Yes, sir.

Senator MCNARY. Then it is a profit that you divide?

Mr. CAMPBELL. It is not a profit; it is a saving of expense, possibly.

Senator LENROOT. It is the same thing as a corporation which does business for the profit of the stockholders?

Mr. CAMPBELL. In effect?

Representative TEN EYCK. Is it not a fact that your idea under this law is to clarify the law so that the farmer can cooperate for economical distribution of his product and thereby put upon the market the farmers' produce at a reasonable return to him and at a reasonable price to the consumer?

Mr. CAMPBELL. Yes, sir.

Representative TEN EYCK. What the farmer to-day is up against is the fact that the Standard Oil Co. can make a price on the oil and nobody attacks it on the price it makes, but when the farmer organizes he is attacked by the district attorneys and arrested for attempting to create a monopoly?

Mr. CAMPBELL. That is right. Let me speak of the corporations a minute. Let us take Mr. Rockefeller; you spoke of the Standard Oil Co., and let me speak of Mr. Rockefeller and what he is doing. He is displacing to-day the middleman; he is distributing his oil direct to the consumer. On every corner you see his own distributing stations where he distributes direct to the consumer. He is running pipe lines to get rid of paying the railroad rates.

You take Henry Ford. He is now running a line of boats through the river, lake, and canal to the seaboard with his products.

Senator MCNARY. And he is running a railroad, too.

Mr. CAMPBELL. Yes; and he wants to reduce the prices to the consumers of the country, and they will not let him. He would like to ship coal to the people of Detroit, and in that country for a less price, less freight, and they will not let him do it.

I tell you, gentlemen, the conditions are such to-day that something must be done. We believe we are asking in this bill something that will be beneficial. We do not think it is the most perfect bill that could be drawn perhaps. The discrimination was made, as I said, Senator, when these acts were passed. The farmer can not come under the act as Mr. Rockefeller does, and as Henry Ford's corporation does. We are absolutely barred from that medium that was given to every other industry in this country, except agriculture. And now we come to ask this, and we beg of you to give us something substantial.

Senator LENROOT. I agree that you should have the same rights as the stockholders of corporations. But we do not give the stockholders of corporations the right to create a monopoly.

Mr. CAMPBELL. No; but they have got it.

Senator LENROOT. But we do not grant the right under the law.

Mr. CAMPBELL. No; I admit that. But we are asking for relief, and are saying what no other industry in this country has said; no other industry in this country has said to the Congress and to the

people through their representatives in legislative bodies, "Here we are; here is our industry, we want to cooperate to sell our stuff to the consumers, and we want to cooperate so that we can sell to better advantage. Now, Mr. Government, we are willing to sell our produce to the people, and you may investigate us at any time, and if you believe that we are undertaking to unduly enhance the price or to create a monopoly, and you think we are doing that, you call us in and give us a chance to be heard before we are arrested and taken into the courts; before we are haled before the courts in criminal cases, under criminal laws. Give us a chance to be heard, and let the Secretary of Agriculture make any rules or regulations that are necessary, and let him make his findings, and if we do not follow them then turn us over to the courts."

Senator LENROOT. Are you willing to substitute the Federal Trade Commission for the Secretary of Agriculture? The reason I suggest that is that he represents the producer, primarily.

Mr. CAMPBELL. I'll tell you why we asked for the Secretary of Agriculture here. This is the logical place for it, because the Secretary of Agriculture, through a series of long years of investigations and at an expense of millions of dollars to the people of this country, knows about the cost of production, and through all the avenues they have at hand they have made investigations and know these things; through the county agents—the agricultural agents of the country and the Agricultural Department—has the means of investigating that would save both the Government and the farmers the expense of such an investigation as possibly the Federal Trade Commission would want to make. They have not the means up there for investigation. If a complaint should be made to the Federal Trade Commission, what would they do? Here is a farmers' cooperative association that complaint says should be investigated. The Federal Trade Commission would have to start in ab initio to investigate. The Department of Agriculture has practically everything in the Department of Agriculture to make the investigation, and has the information. And we must assume that these departments, the Department of Agriculture and the other departments, would be honest; that the Department of Agriculture would be as honest in its investigation as the Federal Trade Commission or the Interstate Commerce Commission is in investigating the railroads.

Senator LENROOT. Right there, Mr. Campbell, suppose we take this as the entering wedge and apply to industry generally the remedy you suggest here, would the farmers like to have the representatives of the manufacturers make the investigation with reference to a monopoly of agricultural machinery; would the farmers like to have them regulate the prices of harvesters, and so on?

Mr. CAMPBELL. We do not think——

Senator LENROOT (interposing). I am speaking of the law—of future legislation.

Mr. CAMPBELL. No; I am not so certain of that. I think we would be much better off——

Senator LENROOT (interposing). The point I am making now is this: Would the farmers like to have the representatives of the manufacturing industry have the sole right to regulate prices?

Mr. CAMPBELL. No.

Senator LENROOT. Would not the consuming public have a right to be represented in an investigation of the farming industry?

Mr. CAMPBELL. I am an admirer of the Federal Trade Commission. I do not know that they have done very much. They have made many reports, but I do not believe they have regulated very much, but not through their fault, perhaps.

Why, gentlemen, it strikes me that this very measure we have here—I may be wrong—but it strikes me that this is so fundamental that it will solve unnumbered problems that you have here in Congress to-day if you will give the farmers the right to go ahead and provide for self help in banking and financing and everything. The only business I have is farming. I am not a dirt farmer, but I have been a farmer, and it is the only active interest I have. But I could not live if I did not have some other way of supporting myself. I am interested in banks—some four or five different banks. But I can see how some of the problems you have here could almost be solved by this very basic law.

Take credit. The individual farmer may not be deserving of credit. The bank may say he has got 100 bushels of wheat, but the bank does not want to bother with a chattel mortgage on it, and will not lend him money; but if we get together cooperatively the cooperative association will loan on that 100 bushels of wheat. When the farmers can cooperate to store their grain or their products, if it is necessary to do so, they ought to be entitled to hold them for a little better prices if they want to. They ought to be entitled to do that just as the corporation holds its products for better prices. The farmers ought to have the same privilege. I think it would solve unnumbered problems if we had that right.

Senator LENROOT. I agree with you about that; but still you are asking greater privileges than are given to the corporations. That is what is troubling me.

Mr. CAMPBELL. What I believe was the thought of the men who passed the Clayton Act and the Sherman Act was that they never thought of any such thing as agriculture being affected by it, and the Clayton Act expressly exempted them.

Cooperation among the farmers—among the peasantry of this country—is just as essential as it is in any other country in the world. If Russia had been allowed to organize—if the peasantry of Russia had been allowed to organize—Russia would have been saved, in my opinion, from some of the calamities that are happening there now. It is the unorganized—the mob—that we have to fear.

And we think that if mistakes should be made—if they are being made now—if the farmer in the distant future should make a mistake or become overstrong—an impossible assumption—under this law, Congress is constantly in session, and in a month's time it could be corrected. But after all these long years must we be put off and put off because we think we can foresee some possible phantom that may arise in the future? I may be wrong about it, but I know our farmers are united all over the country. There isn't anything we want so much as this thing—as a free hand to help ourselves—to defend ourselves. We can start the wheels moving in this country. The farmer equals two other average consumers of manufactured products.

Representative TEN EYCK. Your idea is this, that under the present law big business has been permitted to buy up a lot of other businesses and incorporate and carry their production to the consumer?

Mr. CAMPBELL. Yes, sir.

Representative TEN EYCK. In agriculture you are scattered all over the country, and it is impossible for you to come in in a large corporation——

Mr. CAMPBELL (interposing). We can not do it.

Representative TEN EYCK. And what you need is cooperation to do what the corporations are doing to-day?

Mr. CAMPBELL. Yes, sir.

Representative TEN EYCK. So that in time the surplus of production can be properly handled; that you can arrange among yourselves to turn that surplus into a by-product—in the case of milk, for instance, into butter and cheese—and other production, to hold it until there is a demand for it for consumption?

Mr. CAMPBELL. Yes; and there are a thousand and one things that we could do.

Senator LENROOT. I am entirely in sympathy with giving the farmers a right to do cooperatively anything a corporation can do, but from there on is where I am in trouble.

Mr. CAMPBELL. It is from there on, when you put in the proviso that this shall not be construed to exempt them from the Sherman law——

Senator LENROOT (interposing). I am not in favor of the amendment as it stands.

Mr. CAMPBELL. But the Clayton law, that is all in the world these fellows would want.

Senator LENROOT. I agree that as this amendment stands it would prevent you from doing the things that corporations can lawfully do.

Mr. CAMPBELL. Yes, sir.

Senator LENROOT. But I do not see as a legislator how we can give you greater rights then the corporations lawfully have.

Mr. CAMPBELL. I do not think we are getting them. That is what I can not quite see, Senator. The best lawyer——

Senator LENROOT (interposing). Well, we do not give a corporation a right lawfully to carry on a monopoly.

Mr. CAMPBELL. They are all doing it.

Senator LENROOT. I am speaking of the law.

Mr. CAMPBELL. There is scarcely any corporation that is not doing it. The farmer can not take his eggs to market but he finds that there is a monopoly created against him. If he takes his eggs to market, he will find that that very morning there had been a monopoly created among the merchants; they have passed the word around how much they will pay for eggs and so much for butter. Everything is monopolized in this country, practically, and the farmer is the only fellow that is on the outside. And we are willing to be regulated; we are willing to be controlled; we are willing to have an examination made, as I say. And we are the only industry that is willing to do that. Where is there a corporate industry in this country that is willing to do what we are doing in this bill? There is not one, not one of them.

Senator CAPPER. There is no chance of the farmers creating a monopoly, it seems to me.

Mr. CAMPBELL. There isn't any. Take the situation in Chicago. There are 23,000,000 cows in the United States. Within 500 miles of Chicago there are 10,000,000 cows. New York is in the congested area of population in this country, and yet they are only consuming whole milk there to the extent of about 40 per cent—a little over 40 per cent in the area of New York—only 40 per cent is being consumed as whole milk. The rest of it goes into butter and cheese and other milk products, and that is an illustration that Senator Walsh uses.

Why, it is an absolute impossibility, gentlemen; but we ask you to let us have a trial, and if we do not then do the right thing you can change it. We know what we can do.

May I use a homely illustration? This is familiar to all of you, if you live in a small country city. The farmers do cooperate in mutual insurance on their buildings. The trust stock fire insurance rate in this country is 70 cents per hundred per year on the average farm buildings. The farmers are carrying it cooperatively at 30 cents a hundred and paying all their expenses. In my State alone they are saving themselves $2,000,000 a year just in fire insurance rates alone. Why, your fire stock insurance companies—if Congress wants to do something it should get after them. Eight hundred million dollars every year collected by them in premiums, and they are paying back only $300,000,000 in losses. An $800,000,000 insurance trust. I do not believe that the fellows that met down in Cincinnati three or four or five weeks ago have ever come to Washington, but they have a $250,000 educational fund raised to defeat this Volstead bill. They say so openly. I don't know where they are to have their schoolhouses. They say it is for educational purposes.

Senator LENROOT. Just what is that?

Mr. CAMPBELL. The middlemen. It was all through the press; you saw it.

Representative FUNK. The grain exchanges?

Mr. CAMPBELL. Yes; to show just where it begins. I am becoming as well informed, or misinformed, as I can be by reading the Congressional Record, and I have done it for years. There are many things that could be done, but this is fundamental. This is not the only thing the farmers want. This is the thing, however, that both political parties have promised we should have. It is what they said we should have. President Harding has said we should have it. We do not know why we should be denied. We would like to have a trial. The farmers can not come down here in large numbers to Congress.

Senator McNARY. I think we are all with you, but the question is how far to go.

Mr. CAMPBELL. These jokers that they leave in the bills leave a good deal for the middlemen and answer the full purpose of our enemies.

Senator McNARY. I do not think you could get a dozen votes in the Senate for this provision that is found on page 5.

Senator LENROOT. I think it should be clarified; but that does not follow that there should not be some amendments.

Mr. CAMPBELL. May I speak of one other little thing? There is an omission, I am sure, on the part of the House. It affects our dairy matters. I would like to have you think of it when you come to your consideration of the tariff bill. We asked for a 10-cent tariff on butter—I am not going into that very fully—because that will come up before the Finance Committee.

Senator MCNARY. On butter fat?

Mr. CAMPBELL. Yes; we asked for 10 cents, and they gave us 8. We are not kicking so much about that. But when they came to cream—you know now the centralizers can take cream in almost any stage of its existence and neutralize it and make butter of it. They can ship it across the ocean or they can ship it in quantities across from Canada, put in some limewater and neutralize it, and when they get it here churn it, and they can do that for 3 cents a pound; to neutralize it and the tariff and all would not amount to 3 cents. But they put 5 to 10 cents a pound on cream. We do not know that the centralizers did that. I am sure that the committee itself had no thought that anything of that kind was being worked out. We would like to have that correction made.

Senator LENROOT. You should bring that to the attention of the Finance Committee of the Senate.

Mr. CAMPBELL. Yes; I think they will correct it.

The CHAIRMAN. Are there any further questions to be asked of Mr. Campbell?

Senator LENROOT. Yes, Mr. Chairman; I want to ask on another line. Are you interested in this filled-milk proposition, Mr. Campbell?

Mr. CAMPBELL. Yes; very much interested.

Senator LENROOT. Would you like to say anything to this committee about that?

Mr. CAMPBELL. I would like to; yes. I am not an expert or scientist on this proposition, but I would like to say that it is to-day very threatening. It is nothing but a fraud, of course. They are selling this stuff under the guise of milk. As we all understand, they take out the butter fat and cream, and then put in the vegetable oils; and while it will not kill anybody, it would starve a baby to death, and mothers buy it and use it, when they find it on the shelves, because they can buy it for 2 or 3 cents a can less. And it is a fraud—merely a swindle—that is all.

Senator LENROOT. Which bill does your association favor?

Mr. CAMPBELL. We favor them both. I mean there is good in either one of them. The Voigt bill is the one we want passed; the one that has already passed the House committee—that was passed favorably by the committee.

Senator LENROOT. Has your counsel examined the Voigt bill?

Mr. CAMPBELL. Yes, sir.

Senator LENROOT. Does your counsel believe that it is constitutional?

Mr. CAMPBELL. Yes; we do. If the oleomargarine proposition is good, we think it is.

Senator LENROOT. Is that the Voigt bill?

Mr. CAMPBELL. Yes, sir.

Senator LENROOT. In that bill there is this element that I wonder if your counsel has considered, in the matter of fraud involved in the oleomargarine——

Mr. CAMPBELL (interposing). I appreciate there is a tax there.

Senator LENROOT. No; but I mean Congress has no power to legislate against a healthful product that is not accompanied by fraud.

Mr. CAMPBELL. Yes.

Senator LENROOT. I just called your attention to it because very able counsel have rendered opinions that it is not constitutional, and I am of that opinion. I do not think it would help your industry to go into a long struggle through the courts on that subject. I am in favor of the tax bill.

Mr. CAMPBELL. We have been of the opinion that it would be constitutional, and our counsel has told us that it is a fraud.

Senator LENROOT. But it is not a fraud.

Mr. CAMPBELL. It is a fraud in that it is counterfeiting a food. It is even more dangerous than counterfeit money, we believe, very much more dangerous to the public, because it is bought for milk; although it may say on the can that it is not for baby's milk, it is bought as milk, and it is on the grocer's shelves as milk, and it is intended to be sold as milk. They keep the skimmed milk in it. And it is dangerous to the public health. I think it should have the skull and crossbones on it.

Senator LENROOT. I just wanted to say that I think your association is hurting itself and wasting its time on this bill instead of putting its efforts on the tax bill.

Mr. CAMPBELL. If they will put enough tax on it to kill it.

Senator LENROOT. Of course.

Mr. CAMPBELL. But to put a 1-cent revenue on it might make a good revenue measure, but it would help to destroy a needed industry and menace the life of innocent babes.

Senator LENROOT. It should be the same as oleomargarine.

Mr. CAMPBELL. I say we want to kill it, and we do not care how it is killed if it can be effectively done, because we believe it is a dangerous thing. And so do all the scientists believe it, because it is a counterfeit that is bad and certainly is a dangerous one.

Senator LENROOT. I think your opponents would very much rather have the bill that has been reported passed, because they think it is safe.

Mr. CAMPBELL. Because you think it would be held unconstitutional?

Senator LENROOT. Yes.

Mr. CAMPBELL. I would not want to say about that.

The CHAIRMAN. If there is nothing further, we are very much obliged to you, Mr. Campbell, for your statement.

Mr. CAMPBELL. There are several other things I had in mind to say, but I will not take your time to say them now.

The CHAIRMAN. The committee will now hear Mr. Atkeson, the representative of the National Grange.

STATEMENT OF MR. T. C. ATKESON, WASHINGTON REPRESENTATIVE OF THE NATIONAL GRANGE.

Mr. ATKESON. Mr. Chairman and gentleman of the commission. my name is T. C. Atkeson; I am the Washington representative of the National Grange.

I have been out of Washington for the last four or five weeks, and I feel that I have received some benefit from an actual contact with the people who are in the country farming the farms, and I have even helped to do some of the work in the hay field.

When I am in Washington I am representing the oldest farm organization in the country, now over a half century old, with somewhere near a million members and with representatives in 35 of the 48 States of the Union, reaching from Maine to California and as far south as North Carolina, and in all the States between, except a few of the southern cotton States, and from Arizona and New Mexico and Nevada and a few of the Southwestern States.

Now, this organization has in its membership people engaged in every line of agricultural industry. We are not dairymen alone or live-stock producers or wheat producers or the producers of any single line of agricultural product. Representatives of our organization meet practically every week in the year, holding annually about 200,000 farm organization meeting in this country. And then State organizations meet annually, and representatives from the State organization attend the national organization meetings. There come up to the national organization meetings from these subordinate organizations and from the State organizations for decision the financial and economic questions that have been discussed in their various meetings. Our organization is built from the country up. It could have no higher organization without the lower.

When we met in Boston last November we had in that meeting probably not less than 15,000 farmers—the most farmers that ever were assembled on one occasion in the United States. Now, it is just as easy to say 15,000 as it would be to say 5,000, and sometimes some of us in our enthusiasm oversize the fact, but our organization is a fraternity. Men take the four subordinate degrees in the local organization. They take the fifth and sixth degrees in the State organization and the seventh in the national one.

Now, the people who take that seventh degree pay a fee, and at this Boston meeting we conferred that seventh degree on a class of 9,838 people. There was no guess about that. We got their money, and their names are published in the record. That many people were there, and, as other lodges would say, when they take the degree they went as high as they could get, and we have given you the exact number of people upon whom this degree was conferred. Now, we know there were between 5,000 and 10,000 people in that city members of our organization who had received this degree before. So we think it very conservative to say there were anywhere from 15,000 to 20,000 farmers and farm representatives in that meeting.

I think it only fair to say this about this organization, because it is not a product of the present condition. It was in large measure a product of the conditions which followed the Civil War, having

been conceived and organized in 1866 and 1867, when the country was confronted with more or less similar conditions to those with which we are now confronted.

This organization has continued to function every year and every week in the year since 1866, and it has been a student of these agricultural problems in every detail. It has been most closely related to the actual farmer on the farm, but it has had a broader State-wide standpoint and a national standpoint.

Now, some of us grangers think that because of the necessity of studying these questions in this old organization that we have reached conclusions that are at least sane and rational and worthy of consideration on the conditions that now confront agriculture.

I have been a member of this organization for 41 years last May, and I have come in contact with it through its local branches all the way up through the State and national organizations. For 24 years I was the head of the organization in my State and declined a reelection last November because I thought it was more important to loaf around Washington to see what you people think about than to spend any more time as the head of the organization in my State. Of course I have been more or less intimately identified with the national organization during these 41 years.

While I was down at my farm in actual contact with farming problems I felt that I was a real farmer; when I am in Washington I may be a lobbyist or anything else anybody chooses to call me. But I have never felt that I was here for any purpose except to deliberately discuss the propositions that affect agriculture fairly with the representatives of all parties and with all sections, with the broad purpose of a common good, and for no other purpose; that is, I have no ulterior purpose. My little salary is paid by the farmers who belong to this organization, and the entire expense of the maintenance of my office in this city—and we have comfortable office rooms and would be glad if you people would come down and see us—the total cost to the farmer members of our organization is just about 1½ cents apiece. So we are not a very burdensome institution. The total support of that office last year was about $6,000. This year it will be a little more, because we put in some better furniture and have new quarters that are costing us a little more.

I am in Washington now, but ever since I was born I have been a farmer, and I operate to-day, in partnership with my second son, who is a graduate of our agricultural college, the farm where I was born. And every summer since I was born I have spent the summer on that farm, in the practical operation of it, except summer before last. That was my first summer in Washington, and I had a very interesting time trying to tell you Congressmen what to do. You always pay attention to what I say, but you do not always do what I ask you to do.

A little group of farmers in my country town were at the post office a few days ago. They had congregated there by accident, and some rather venturesome statesmen wanted to know why Congress did not do something to relieve the agricultural situation. It seemed to be up to me to answer why they had not done something. That question is being asked from one end of this Nation to the other. And I answered it by saying that the best thing Congress does from the beginning of one session to the end of it—or the best things they

do, to change it to the plural—are the things they do not do. And then, to illustrate that, I gave this fact: We investigated a few weeks ago the number of bills that had been introduced in the House in the interest of the farmers on the financial side of various propositions for financing the farmers, and we found, I think, 24 of these separate bills; and if Congress had passed all of those bills and complied with the provisions of those bills, it would have taken a total of $4,000,000,000, and every one of those 24 financing propositions was written and introduced by men who thought that that particular measure would be the salvation of the country. There are perhaps more in the Senate. I have not checked those up. If Congress had passed all of those bills, it would have been practically the end of sane government and sound finance. So the most important thing that Congress can do this session in the way of financing the farmers will be the things that it does not do, judging by these bills.

Representative SUMNERS. Your position is that none of the propositions which have been offered for meeting the present emergency ought to become a law?

Mr. ATKESON. No; I do not mean to say that none of them are good.

Representative SUMNERS. No; I say, do you mean to say that none of those propositions that are pending, or that have been introduced looking to relief of the farmers should be passed; you are opposed to all of them?

Mr. ATKESON. In the 24 there are so many——

Representative SUMNERS (interposing). Perhaps I misunderstood you.

Mr. ATKESON. I say, if they passed all of them it would prove to be a calamity. I say, behind every one of those bills, somebody thinks that is the salvation of the earth; somebody had to get it out of his system, and it gets into the congressional hopper, and it is put up to Congress to determine, in the final analysis, after the best thought they can give to it, which of those bills should be passed to relieve the situation. It may be that some one of those bills is exactly what is needed. But it makes no difference which one does not pass, somebody will think Congress should have passed that one.

Representative SUMNERS. I think I must have misunderstood you.

Mr. ATKESON. Now, I think we will make progress—I do not want to take too much of your time—but I want to present at least a part of what I wrote when I was at my farm, out of this heated atmosphere of Washington.

The CHAIRMAN. Mr. Atkeson, there is to be a roll call in the House, which the Members of the House on the commission should answer. If you do not mind, we will take a recess at this time until 1.30 o'clock this afternoon.

Mr. ATKESON. That is perfectly satisfactory to me.

(Whereupon, at 11 o'clock and 45 minutes a. m., the commission stood on recess until 1.30 o'clock in the afternoon of the same day.)

AFTER RECESS.

The commission resumed its session at 1.30 o'clock p. m., pursuant to the taking of recess.

The CHAIRMAN. Mr. Atkeson, you may continue.

Mr. ATKESON. Mr. Chairman, I feel sure that I appreciate as fully as any living man the basic and far-reaching importance of the work

that has been assigned this commission, and I have no doubt of your conscientious determination to solve as far as humanly possible the economic conditions and problems that now confront American agriculture and American farmers.

I do not deem it necessary to dwell at great length upon the calamitous situation in which our farmers now find themselves, for much has already been said upon that subject to this commission, before committees of Congress, upon the floor of both Houses, in the public press, and by farmers everywhere. We all know the situation is bad—very bad. But it is a condition and not a theory that confronts us, and we are hoping that you gentlemen, in the plenitude of your wisdom, may be able to tell us what we are going to do about it.

Congress is sympathetically hearing the farmers' Macedonian cry, and I know they would come over and help us if they knew how to do it. I will say that since my close contact with Congress for the last three years I have come to respect the ability, good intentions and patriotic purposes of the average Congressman more highly than some people do. In many instances the reason they don't do better than they do is because they don't know any better. I am sometimes persuaded that some of them know less about agriculture than about anything else.

It was my privilege to favor the appointment of this commission, and I did so, upon the theory that Congress was groping in the dark as to the real facts in regard to the conditions confronting agriculture as compared to the other industries, and that there was a general feeling in and out of Congress that something must be done to protect and promote this basic industry, upon which the perpetuity of our institutions and the prosperity of every other industry so largely depends.

Agriculture has passed through many other periods of depression and came up smiling. I am optimistic enough to believe we are going to safely weather the present storm. I could not be a pessimist, and yet it would be foolish to shut my eyes to the seriousness of the facts that confront American agriculture, so I have become a meliorist—not a pessimist, but a modified, rational optimist—believing that the world is not the best nor the worst possible, but susceptible of improvement or actually improving through the evolutionary struggle tending to the good—a meliorist.

I am fully convinced that an unhealthy condition of expecting too much from the Government is growing up in this country. Our people should not depend upon the Government to do what they should do for themselves. While this is true, I do believe that Congress should do all it can within the bounds of economic safety to ameliorate the distressing conditions through which we now are passing, and I believe it is the patriotic duty of every one of us through legislation or otherwise to do all we can to improve the situation and to inspire hope and faith in the future of agriculture and our country. What this commission is seeking to learn is, what has happened to agriculture and what rational remedy may be applied. In the language of Mr. George H. Hull:

> What the industrial nations are seeking to know is, what causes the depressions which take place in the absence of any recognized cause—the depressions which come in the midst of great prosperity and bright prospect for its continuance. What is the mysterious and powerful force which is so overmaster-

ing and irresistible that it overrides and submerges all the visible and powerful causes of prosperity? What brings about these stupendous national calamities, which develop so mysteriously, which creep over and become fastened upon a country before they are even suspected, which transform industrial exhilaration into industrial gloom, and which result in a reduction oi thousands of millions per annum in the earnings of the people.

Taking a broad view of the agricultural situation, I agree in a general way with the recent statement of Mr. Roger W. Babson, in which he says:

Business runs in cycles. As far back as we have records beyond the Civi War, we note the inevitable periods of prosperity, decline, depression, and improvement. We learn, first, that the period of depression is the result of the extravagance, inefficiency, unrighteousness, and dishonesty which developed during the latter half of the period of prosperity; and, second, that a period of prosperity is the reaction from the thrift and economy, righteousness, industry, and integrity which develops in the latter half of the periods of depression.

Conditions to-day are 100 per cent different from a year ago. The law of equal and opposite reaction is evident. Since the early part of 1920 manufacturing and industry have been rapidly slowing down; bank clearings in the industrial as well as the agricultural sections have declined; failures and liabilities are the largest in years, while unemployment has increased with a startling regularity. These conditions, true of every business decline and depression, of course, gradually reduce the purchasing power of any community. Thus the wheel revolves, but it is not alone our railroads, steamships, factories or foreign trade which cause our prosperity. These factors are primarily thermometers, for the fundamental basis is in recognition of the elements mentioned above; namely, thrift, efficiency, industry, and honesty.

We have already witnessed a great decline in commodity prices. Notwithstanding this, the commodity market has not been stabilized. We have not yet created a foundation which offsets the great inflation of the past few years. There are still some factors in the present commodity situation which if eliminated would greatly clear the air. I refer especially to the present Federal tax system.

Mr. Otto H. Kahn in discussing the farm problems makes this graphic statement:

Adversity and hardship have come upon the farmer, as they have come or can not fail to come, in a greater or lesser degree, upon every element in the community in the painful economic process through which the country is passing. But that wave of trouble struck first of all the farmer; perhaps, also it struck him hardest, and under existing conditions he is least able to protect himself and "get from under."

From this and other causes the farmer is gravely discontented and under a sense of grievance with the existing order of things. His is a toilsome and none too well requited calling at best involving inevitable hardships and deprivations. The vital necessity of the farming industry needs no emphasis. The immense social value of the farming class to the State is beyond argument. If there is one calling which has a higher claim than another upon the helpful consideration of the State among those which make up the sum total of the Nation's activities it is that of the farmer. His just grievances call for immediate intelligent consideration and for effective redress. If that redress can only be made effective by methods which are new and somewhat unpalatable to the established ways of business then the less important will have to yield to the more important, i. e., business convenience and customs to the true welfare of the farming industry.

While I do not always agree with Mr. Kahn I do believe that Congress and the public must deal with the present agricultural situation in a helpful and constructive way even if it becomes necessary to depart somewhat from the old and long-established landmarks of business. It is sometimes necessary to prescribe new remedies for new diseases, and all progress is made by ventures into new fields. In all progressive ventures, however, we should guard well against

unhealthy radicalism lest the remedy become worse than the disease. Before we can successfully prescribe for any disease—physical, social, or economic—it is necessary to make a correct diagnosis, and that is the first and perhaps the most important work of this commission.

I may say in fairness to myself that I do not agree with many of the utopian and visionary schemes that have been proposed as remedies for the agricultural disease. Some of them are based upon incorrect diagnosis, others are hopelessly unsound economically, and still others would seem to be the products of a distempered brain. In all such cases the remedy would be worse than the disease, and in the long run could only make the patient worse instead of better.

During every period of readjustment following great wars or other economic upheaval there always develops a widespread spirit of unrest among the people which is sure to produce a horde of impractical dreamers, or worse, who undertake to capitalize the general distress for their own personal or class advantage. Such wild-eyed, visionary leaders are an unmixed evil, seeking to drag the discouraged and unsuspecting into the miasmic morass of their own distempered minds. This is especially true in the field of finance and economics, where frequently those who know least assume to know most about it. Many of the proposed remedies have long been proven unsound and impracticable.

We have in this country, and possibly in all other countries, two distinct but widely divergent schools of economics. One would magnify the activities of government until individual initiative was entirely destroyed and ownership of private property completely eliminated, while the other would keep the Government so remote from business that no protection would be given the weak against the strong, which is the fundamental purpose of government. One of these groups in all their many variations may be called Socialists, while the other may properly be designated reactionaries, with whatever that term means. Personally I have about as little respect for the one as the other. Fortunately for our glorious country and our great democracy, the great majority of our people have but little sympathy with either. The safety of our institutions depends very largely upon the fact that the intelligent, self-respecting, conservative, patriotic American farmers are not likely to be misled into accepting any of the quack nostrums proposed as remedies in finance or economics. Just now they are hopefully looking to this commission to correctly diagnose the disease that affects agriculture and to prescribe safe, sound, sane, and efficient remedies for the distressing malady.

Possibly I may somewhat assist with a few suggestions. First among the burdens that rest heavily upon agriculture is the extravagance of government itself, which is loading us down with an intolerable load of taxation, under which the whole country is staggering. Not only the Federal Government but all our local and State governments are wastefully swallowing up the substance of the people, and God only knows where it is all going to end.

I would like to say that, compared with local, State, and municipal taxation, the national problem is a mere drop in the bucket on the shoulders of the farming people of this country. Most of their troubles are State and local.

The CHAIRMAN. In that connection, Mr. Atkeson, we have obtained some figures which show a very remarkable state of affairs. For instance, these figures show that industrial buildings, buildings for manufacturing, industrial, and agricultural purposes, have decreased and continue to decrease during this period of lowering prices, while construction for municipal purposes, for State purposes, for hospitals, churches, and all those purposes, which lead either to taxation or donations, building operations have increased during this period.

Mr. ATKESON. To digress a little, I might state that the tax rate in my own State is about 3 per cent. If a man has money in the savings bank at 3 per cent he comes out in debt if he does not perjure himself in his tax return. But that is all aside from what I have been stating.

A certain school of economists are promulgating the theory of using the taxing power of the Government as a means of taking away from the man that hath and giving to the man that hath not. It is becoming an insidious influence of evil, and many otherwise sensible people are permitting themselves to be seduced by it. With agriculture staggering under its heavy load of taxation, a hungry horde of tax eaters surrounds every legislative body in the land howling for larger and larger appropriations, which are to be expended through their hands or the hands of their backers or employers. We hear much about economy and reducing taxes while the power of Government is being used to strangle the productive energies of our farmers and appropriations continue to climb upwards.

In the main, we agree with President Harding's dictum that we should have less Government in business and more business in Government, and for the benefit of our Democratic friends we submit the following brief extract from a speech delivered by ex-President Wilson in March, 1908:

> Governmental commissions can not possibly understand business better than those who conduct it. Their regulative interference with business will only complete the confusion and embarrassments into which we are so rapidly stumbling. The old processes of law are the more difficult, but the more effective. We must discover just what transactions we wish to put an end to; must have once more the reign of law rather than the reign of Government officials.

In looking for remedies for ailing agriculture we could hardly overlook the tariff with its complicated and confusing relation to American commerce. We have no doubt the tariff fixers will endeavor to safeguard American industry, maintain the American standard of wages and living against cheap labor and depreciated currency abroad. Yet we are facing a fundamentally novel problem in the fact that within the past six years, for the first time in our history, we have become a creditor Nation. Without attempting to settle the tariff policy of the Nation, so long as the policy of protection prevails American agriculture is going to demand a fair share of protection. We repudiate entirely the theory that the products of the farm are "raw materials." They are the farmers' finished products, and anything else is rank heresy.

No fair diagnosis of the farm problem can overlook the fact that the controlling inspiration to agricultural production must ever remain the wages earned and the hope of profit upon the necessary

financial investment. Under present conditions the farmers are receiving little for their labor and no profit upon their investment. With hired labor costing more than it can earn, and with the disappearance of hoped-for profit, the situation of our farmers is becoming desperate indeed. All my life my sympathy has been with the laborer rather than the capitalist, but the immutable laws of economics must prevail regardless of the arrogance of union labor, so called. Either the labor cost of agricultural production must come down or the price of agricultural products must go up. Personally, I prefer the higher level, but somehow, somewhere, the economic level must be found. Somehow there must be a narrowing of the spread between the wages paid in other industries and the present price of agricultural products. Or, to put it another way, the farmer's dollar must buy as much as it costs or agriculture must go into bankruptcy and the Nation go hungry. The readjustment will be painful, but it must come.

At the very root of our agricultural troubles is the transportation question. Everything that the farmer or anyone else buys or sells must be moved, and the cost of moving it must be paid by somebody. In the long run it does not make much difference who pays the original transportation cost, for if it is high enough it must ultimately squeeze the life out of the traffic. If the cost of transportation is greater than the commodity will bear, it must inevitably result in loss or injury to both producer and consumer, by either making the price paid the producer so low that he can not afford to produce it or the price paid by the consumer so high that he can not afford to consume it. In either case it destroys the business. Somehow the cost of transportation must be reduced. Among the first war taxes that should be repealed are the taxes on transportation.

Much has been said during the last few months about financing the farmers, and the discussion of no subject has carried more elements of unsoundness than this. Credit is a valuable asset to any man or to any business, but it needs to be used with great care and conservatism. No man without credit ever bankrupts, and no bankrupt has any credit. How to give credit to men who have none and how to make bankrupts solvent are among the problems over which the idealists have dreamed since the days when the Apostle Peter said, "Neither gold nor silver have I, but such as I have will I give unto thee." The Scripture tells us that the love of money is the root of all evil. Not money, but the love of it seems to be the trouble. But this subject is too large for adequate discussion here. Money and credit rightly used are the mainsprings of business or commercial success, but either or both may easily take unto themselves wings and fly away. Especially is that true in these days of readjustment and falling prices. The temptation to dwell longer upon this subject is great, but I must pass on, with the warning to beware of the financial charlatan and monetary wizard.

In these trying times of falling prices and reconstruction it is the duty of the Government to do all that can safely be done to lift the burden from the backs of the people, because it is through the Government that we may collectively lift a load which we could not lift individually; but in a successful democracy the people must ever be

jealous of the rights of the individual. Secretary Hoover in a recent address assures us:

In all these things the Government is using sanity and caution that this may indeed be a real period of reconstruction. We will hold steadfastly to the vision that looks to the removal of obstructins to the recovery of commerce and to aids to its improvement and not to these proposals that would enter the Government into business itself.

Even if the Government succeeds in successfully removing every obstruction to which it is a party, then recovering itself must rest on the initiative, the courage, the hard work of our people themselves.

All that is needed in the last analysis to bring a reasonable degree of success and prosperity to American agriculture is a profitable market for the products which can and will be raised on the American farms. Given that market, the American farms and American farmers can be relied upon to reproduce an era of prosperity for themselves and for all legitimate and business manufacturing interests in the Nation.

The greatest misapprehension about agriculture and its condition is due to the magnitude of the industry as a whole. Because of the magnitude of the entire industry, many people have been led to think and talk of it loosely as the largest industry, and therefore to measure its ups and downs in terms of the entire industry.

Illustration of this is found in the numerous statements which have been made within the past year of the great losses which have been suffered by agriculture because of the decline in prices. This loss has been estimated variously at from three to seven billion dollars.

A moderate average of these estimates is not a misapprehension as to what has happened to the industry as a whole, and the effect on other industries of this decline in agricultural prices is measured by this total, large as it is; but this method of measuring and appraising the effect of ups and downs does not apply to the individual unit in agriculture and the individuals engaged in agriculture. Their losses are not measured by these tremendous totals, and the result as to the prosperity of these individuals is not fairly indicated by the size of these totals. The fact is that the individual unit in agriculture is the smallest of any major industry and the reduction in value of farm products, large as it has been in the aggregate, when divided among the enormous number of units involved becomes a comparatively small item measured relatively to other industries. Of course, there are exceptions, but this is the rule, and this is the reason why agriculture has withstood this decline and now finds itself solvent after having taken an aggregate loss which it is likely would have put any other industry into complete bankruptcy. The following table will show the loss per unit:

Estimated loss in value of agricultural products	$5,000,000,000.00
Total number of agricultural units	6,448,336.00
Average loss per unit	775.39

This must not be understood as an effort to minimize the losses which agriculture has suffered or the serious effects of these losses either on other business or on the future increase and development of agriculture and the consequent production of the food supply of this Nation, but is an effort to get this matter into its proper relationship in the minds of the members of the committee and the minds of the

public. As a matter of public good and public policy, this condition in agriculture should be remedied, if possible; ought not to have been brought about, and if a recurrence can be prevented or even a partial recurrence by any legislative remedies, public policy demands that such remedies be applied.

Present conditions in agriculture have come about because of a shrinkage in the foreign and the domestic market for farm products. The first one in point of time, but perhaps not in point of importance, was the falling off in foreign market outlet which began to develop less than a year after the signing of the armistice. This was due to foreign economic conditions and the reaction of the war, and was probably humanly unpreventable. It affected the market for manufactured goods no less than for agricultural products. At the same time there was a speeding up of American production due to the expectancy of a longer war period, which can not be criticized; also the administration of food problems in the hands of individuals totally unfamiliar and unsympathetic with agriculture and its problems, so that an improper balance of agricultural production had been created in the United States. All of this was coupled with a misapprehension as to the buying power of European countries—need for products had been confused with ability to purchase products—and this misapprehension continued the maximum production of American products, both farm and factory, for a period after the armistice sufficiently long to pile up a surplus here under conditions of high-cost production so large and so costly that it was unmarketable at profitable prices, if at all.

The second factor having to do with the curtailment of market opportunities was the secondary reaction in the curtailment of foreign market opportunities. Europe's inability to buy farm products was no greater than her inability to buy manufactured products, and this started the slowing up of American industrial activity, which in turn immediately slowed up the domestic consumption of agricultural products. This analysis puts the cause of the slump in market prices for farm products in its proper relationship. The other contributing factors followed in natural sequence.

It is a well-known economic truism, so axiomatic that it was naturally forgotten in this period, that consumption does not vary in proportion to desire but in proportion to ability to pay. People can subsist with very small expenditures, even for so-called necessities, when they are unable to purchase those so-called necessities, and that is what happened throughout Europe in 1919, and it is what is happening throughout agricultural United States in 1920 and 1921. It is difficult to see just where or how any legislation can affect this basic economic fact.

The lack of markets caused the decline in prices. The present absence of markets, both foreign and domestic, is the chief factor in the continuance of this low price level. Farmers have been hurt badly by this price decline, and were hurt first; but it is just possible that in the long run they may not be hurt as badly as some other industries are likely to be hurt. But, badly as agriculture is hurt, the loss was chiefly in reasonably expected returns and not in actual returns, and when spread over the entire industry amounts, as shown, to but several hundred dollars per farm. The average farmer has

not suffered either impairment of capital or ability to produce. He has his farm, his stock and equipment, his brains, and his hands. What he needs now is, first, a market and, second, a chance to produce at a cost of production which will give him access to the market.

Those most hurt were the farmers who were in debt, either for the purchase of land or for money borrowed upon the basis of crops withheld from market, and particularly if these debts were made on the basis of recently inflated prices. This has resulted in actual bankruptcy of those so situated. Tenants leasing farms for cash rental upon the basis of inflated prices were also seriously hurt, while conservative owners and tenants on a share basis have suffered much less.

The primary business of the American farmer is to sell his farm product; his primary occupation is to raise these products with the greatest possible efficiency and at the least possible cost. The 1919 crop was raised at a high cost and only partially sold. The 1920 crop was raised at a high cost and only partially sold. The 1921 crop, raised at a greatly reduced cost but normal as to size and quality, except as to cotton, must now find a market.

It is my judgment that in the long run any system of pooling, storing, warehousing, or financing which will cause crops to be withheld from market until another crop is produced will be a detriment to agriculture and to general prosperity, and that any Federal legislation having this as its object is unwise and against public policy. This does not mean that there may not be individual cases in which this may be wise, provided that individuals finance such activities in accordance with proper business judgment. A general governmentally authorized or approved pooling or deferred marketing system will only result in curtailing consumption, which must be stimulated instead of curtailed, and in damming up a still larger store of products to be let loose at some future period, to still further increase the agricultural disaster.

This present crop and what is left in storage of previous crops must be sold in a market which has been squeezed dry by war necessities, burdened by war debts, and irritated by war taxes. If this is to be done without disaster or with any hope for profit, the crop must be produced at the lowest possible cost. If legislation can be planned toward this end, I can see in it some hope for agricultural help. This means that everything which can possibly be done to reduce the amount of labor on the farm and its cost, the cost of fertilizer which must be used, the cost of farm machinery, and of boots and shoes and clothing and food and the other necessities which the farmers must buy, must be done. There is a principle involved here which affects much pending legislation.

Other industries, and especially workers in other industries, will object to this program, but they have their choice; either there will be decreasing production of farm products and a small surplus to be sold, accompanied by decreasing demand for the products of industrial labor, higher food prices, and fewer jobs, or else there will be a lower cost of farm production, sustained production, and larger sale of surplus products, better demand for the products of industrial labor and more jobs. The economic law is as immutable as the law of gravitation, and those engaged in agriculture and

those engaged in other labor must come closer together or universal disaster must follow.

The "spread" between the producer and consumer is of no financial interest to the producer unless it reduces his return below the cost of production or unless the margin is so great—the selling price so high—that it seriously limits consumption. All efforts made by the producers to sell at a distance from the point of production are efforts taken from the more necessary and more essential occupation—that of production—and are only justified by clear and definite economic benefits which will increase returns or stimulate sales. The outstanding illustration of this in the commercial world is the automobile industry. It is the largest manufacturing industry in the country and to-day the predominating influence in manufacturing. This industry has established and maintains the fixed policy of selling its products on its loading platform, each succeeding step in the sales process being handled by individually responsible units. The vast majority of business transactions are handled upon closely allied principles, and a small and decreasing minority of American business enterprises are to-day making any effort at direct sales. On the other hand, the spread between producers and consumers is of clear and definite interest to the consumer, who must pay it. Efforts of consumers to purchase direct or cooperatively may be of great advantage both in stimulating markets and in positive economies to the members of such cooperative organizations. Legislation along this line should be worked out.

In studying markets it is found that the largest part of the surplus farm products are consumed near the point of production and the overwhelming proportion in our own country. This means that it is of importance to give first attention to the stimulation of the American market. I can make two suggestions as to legislation on this point. One is that there shall be no further legislation which will help inflate or cause to be inflated the labor costs of commodities or of transportation that will retard industrial development, which forms the major market for American farm products. The second is that in tariff and merchant marine legislation and actual practice return loans shall be subject to careful scrutiny, so that American farm products shall not be forced to compete in our own markets with foreign food products upon an unequal cost of production or cost of transportation basis. To be specific, it has been said that the policy of the Shipping Board is to run American ships wherever a return load can be had. We appreciate the fact that the return load is essential, but agriculture should demand that for every ship that returns loaded with food products a ship shall return with manufactured products, and that in both cases everything humanly possible shall be done to see that both food products and manufactured products reach the American market loaded with an equal cost of transportation and an equal cost of production to the American products with which they compete.

Living conditions on the farm depend upon economic conditions. It is a fact that isolation, declining standards of education, and in some cases the lack of social and religious opportunities have driven many from the farms to the towns. Just now this is a benefit to those who remain. Agriculture suffers to-day from production greater

than can be sold at a profitable price. When this situation reaches a balance the social, religious, and educational problem should be given serious consideration. Just now the need is for a market for what is being produced by those who remain on the farms and the reduction in the costs of the necessities which they must buy and use on the farms.

I wish to call to the attention of the commission the legislative program adopted by the National Grange as the safest, most complete, and most constructive program of agricultural legislation which has ever been presented by any organization. This represents the serious and long-considered conclusions of an organization made up of nearly a million farmers from all parts of the United States, unbiased and uninfluenced by partisan, sectional, or other influences, and a program whose completeness and consistency I am sure will appeal to your judgment.

It covers some matters which are outside of the scope of the authority under which this commission is proceeding, but I include below those sections which seem to bear directly upon the work you gentlemen have undertaken:

1. At the beginning of this declaration the Grange wishes to express its strong and unwavering Americanism. The most emphatic pledge of every member of this order is his support of the Government of which he is an integral part, which prospers him in his individual family, and every other proper relationship, and under which he has opportunities not found elsewhere in the world for the attainment of his aspirations. There is no room in this order for either the ideas or the methods of foreign radicalism or aristocracy. The Grange stands firmly against the importation of either or the injection of either into American political principles, and declares as emphatically as words and deeds can its support of American democracy.

2. In a democracy the interests of all the people are paramount at all times and under all circumstances to the interests of any group or class of its citizenship. The Grange condemns the shrewd and cunning efforts of agents and propagandists of foreign ideas and "isms" which tend to foment disorder in this country and insists that they deserve severe punishment. The rule of the majority, expressed through the ballot box, must be unquestioned. The Grange upholds the principles of orderly government, insists that all reforms when needed shall come through the orderly means of the ballot box, the courts, and constituted authority.

3. The Grange urges a cessation of the present reckless expenditures in national, State, and local affairs. With dollars worth about half their prewar purchasing values, expenditures are hard to check. The plan for a budget system pending in Congress is a step in the right direction. An equally strong condemnation should be expressed against personal extravagance and reckless expenditure.

4. While recognizing the evils of uncurbed power growing from swollen fortunes in the hands of unscrupulous and ambitious individuals, the National Grange declares that in the government of a free democracy is lodged ample power to curb all such evils. We declare our opposition to Government ownership and to nationalization of business and industry unless clearly required in the public interest. We favor the safeguarding and protection of every right of private property on the broad ground that only by the full development of the right of private property can there be perpetuated the full measure of individual initiative and emulation upon which a democracy is based, and by which its future is assured.

5. If industrial controversies are settled by increasing industrial wages and decreasing industrial hours of labor, farmers must not be held responsible for the resulting increases in the cost of necessaries of life. If industrial wages are increased and hours of industrial labor are decreased, these changes will influence farm wages and farm hours of labor in the same way, and still further decrease farm production and increase farm costs. Increasing wages and decreasing hours also add to the cost of distribution, which in turn is paid by the consumers. The National Grange insists that no settlement of

industrial controversies can be fairly made without taking into account the effect of such settlement on the greatest of all industries—agriculture.

6. Land tenancy is increasing, farm ownership is concentrat ng in the hands of nonresidents, which indicates a declining agriculture, and if not checked must ultimately result in peasantry or some other undesirable country workers. A permanent agriculture can not be maintained with schools, churches, and social facilities on the basis of absentee ownership. If farmers are to remain the dependable and stable element in our democracy which they always have been, they must own their own homes, be politically free, socially satisfied, and economically equal to those engaged in other industries. Sound public policy demands, and the Grange urges, such legislation as will encourage farm ownership by the working farmers and discourage absentee landlordism.

7. The Grange urges that all possible efforts be made to improve the schools of the country and to make them places for training for country life. The National Grange opposes any discrimination against rural schools in the administration of the Smith-Hughes Act and asks that the funds provided by this act be made more readily available for rural vocational education in order to equip the country girl and the country boy for home making and successful farm operation.

8. Production and distribution are separate and distinct functions. When the time and effort of a farmer are spent in distributing his products, that time and effort are taken away from production. The larger part of the work of distbution is done by persons who are not farmers. The general public seems to believe that the cost of distribution is the farmers' problem, and the Grange wishes to make plain that this is not the case and to make plain that the farmers' responsibility ceases when the product of the farm is turned over to the distributor, and that the farmer is not responsible fro the wide margin between the price the consumer pays and the price the producer receives. From that point to the point of final consumption the work is done and the cost is paid by the people who live away from the farms. When in this process the distributors of farm products keep for themselves an unjustifiably large part of the price paid by the consumers and refuse to pay to the producers a reasonable price farmers are justified in entering the distributing field, either individually or collectively, and the Grange asserts that no laws should remain on the statute books which deny this right. But the generally accepted economic principle applies that whether selling individually or collectively the producer should sel as near the point of production as possible to safeguard his rights and his interest; and guided by this same economic law, farmers should buy as near the source of production as possible. For this purpose the cooperative buying of farm supplies is strongly urged.

9. The right of Government control of all trusts and corporations is fundamental, and the Grange demands that such organizations shall be subordinated to the interest of the public and operated without extortion or discrimination. We insist that profiteers, speculators, and corporations unjustly controlling prices and supplies of necessities of life should be severely punished, not by fine alone but by imprisonment as well.

10. In war time price fixing may have been necessary, in peace time the Grange regards price fixing as unjustifiable and indefensible.

11. The instrumentalities for the distribution of food are matters of public concern. The Grange demands that they shall be brought under Government registration and be made subject to governmental control, with means provided to judicially investigate all operations and to correct abuses by such legally enforceable rules and regulations as public interest may dictate.

12. The Grange urges better regulation to prevent the fraudulent sale of oleomargarine as butter. To prevent this fraud the coloring of oleomargarine in imitation of butter should be prohibited. Until better ways to prevent this fraud are found, from manufacturer down to consumer, the Grange urges the continuance and strengthening of the present law.

13. The Grange opposes any amendments to the land-bank law which tend to decrease its usefulness and efficiency or increase the cost to borrowers. We oppose the taxation of land-bank bonds, as this would necessarily increase the interest rate. We believe the law should be amended so that individual borrowers when they so desire may deal directly with the bank if living where no local association exists.

14. The Grange demands a clearer recognition of agricultural interest in feed, fertilizer, and insecticide regulation. This can be met by laws which prohibit adulteration or misbranding of feeding stuffs and make it necessary to state

explicitly on the tags or labels accompanying these commodities when offered for sale the source of the available food in feeding stuffs, plant food in fertilizers, and the ingredients in insecticides.

15. The Grange demands the enactment of such laws as will prohibit the gambling in all food products.

16. The Grange urges Congress to repeal the guaranty feature of the Esch-Cummins railroad law.

17. The Grange has long declared for the principles of exact justice to agriculture in all matters of tariff legislation and now demands that the product of the farms be given tariff protection equal to the protection given products of other industry.

18. We welcome and urge the widest study of production costs of farm products as the surest and quickest method of bringing to the American farmer the economic return that his labor, investment, and ability entitle him to. We ask the appointment by the Secretary of Agriculture of a commission to ascertain the cost of production of stable farm crops in different sections of the United States with a view of establishing a basis for a fair price of such products to the producer, and that the widest publicity be given the findings which such commission may report.

19. The Grange opposes any and all legalized changes in standard time. We commend Congress for repealing the so-called daylight saving law, and will oppose the enactment of any such law. We favor the repeal of all State laws providing for so-called daylight saving, because of the tendency to disorganize transportation, industrial, and agricultural operations. We demand that standard time be maintained in every part of the United States.

20. We recommend the passage by Congress of legislation guaranteeing the right of collective bargaining and cooperative marketing of farm products and the passage of comprehensive cooperative legislation by the Federal Government and uniform cooperative laws by the States.

21. We urge Congress to enact legislation for the establishment of a short-time personal credit system for farmers to enable them to meet their needs, both for production and orderly marketing of their crops throughout the year to meet consumption demands, so that credit may be as cheap and as available to farmers as to any other responsible industry.

22. The Grange favors such legislation as may be required to compel manufacturers of woolen or part woolen fabrics to honestly label their products in such a way as to protect the consumer against imposition, by stating the percentage of new wool and the percentage of shoddy or of other materials used in such fabrics.

23. The Grange asks for the extension of the postal savings system to all post offices which have rural free delivery routes and to the patrons of those routes through the R. F. D. carriers; that the interest paid on deposits shall be not less than 3 per cent; and that the funds deposited in the postal savings banks shall be transferred directly to the United States Treasury, to be used by the Secretary of the Treasury for the purchase of Liberty bonds at par in the order presented for sale.

In conclusion, I may be excused for saying that after very close contact with practically every phase of agriculture and an intimate knowledge of farmers and farm conditions for more than 60 years I have become thoroughly convinced that the best help our farmers will ever receive will be the help they give themselves. Bad as conditions now are I believe there is still a glorious future for agriculture and for the splendid men and women who live in the open country out under the azure dome that spans the universe, and by their industry, energy, economy, and thrift feed the Nation. Morning and evening they lift their heads and voices to God in thankfulness that they live so close to Heaven and work in daily partnership with the Creator. To our friends in the cities I want to say, the cities could not live without the country but that the country people could survive and possibly be a little nearer the Kingdom of Heaven if there were no cities. But under our complicated social and economic conditions we are so mutually dependent upon each other that anything that

injures one class of our people or one industry must injure all the others.

Now, if anybody desires to ask any questions I will try to answer them.

Representative TEN EYCK. You said, Mr. Atkeson, that one reason why the farmer has survived this depression is the fact that he is divided up into so many units and therefore the spread of loss is great. That is the reason why he survived, but is it not true the reason why he feels it more than any other industry of the country is because he feels it 100 per cent; he is 100 per cent owner; he takes 100 per cent loss, while on the other hand the other industries have sold part of their holdings to the consumer, and therefore the consumer must take part of the loss? The farmer is 100 per cent loser in every loss that farming has suffered.

Mr. ATKESON. And he feels it individually; each individual farmer.

Representative TEN EYCK. In other words, that $750 unit loss is a $750 loss to the farming community, not divided with the consumer as in other industries?

Mr. ATKESON. That is his loss after he has gotten everything possible out of the consumer; that is, after he sold his product he suffered that much loss.

Now, I think I may venture a little suggestion that is somewhat in line with the question you have asked. When this collapse came in the agricultural products of the country, if it had come on everybody else in the same proportion I am inclined to think we would all be better off to-day. The farmer looked to his high-cost product for the cost of production and the large profit that he hoped for and to carry out the plans that he had made based on that expectation. The price of farm products had gone up 100 per cent, we will say, above the prewar level; some went higher and some did not. Labor on the farms went up fully as much; more than 100 per cent in my personal experience. Farm machinery went up more than 100 per cent. But if it had all gone up just 100 per cent—and they did go up more or less approximately equally—when they all got up there, if they could all have stayed up there we would have had a very nice time of it.

So during the days when everybody was clamoring about the high cost of living I said before committees and in the public press that the only fool I knew in this country was the man who was using the term "high cost of living," because every man in America had a job, if he was willing to work, and he got the price of living at that high cost.

Now, the first thing that happened that made me sit up and take notice was when the railroad brotherhoods, through their representatives—and I know those gentlemen personally, because I served on Mr. Wilson's Industrial Commission for several weeks with them—threatened to strike if the high cost of living did not come down. The President said, as you all remember, "No; don't do that; give us 60 or 90 days, and we will see what we can do to bring down the cost of living." And then the Attorney General took up the matter, and there followed the prosecution of profiteers and everybody else, and there began a systematic bombardment of the high cost of living.

We were all to blame. I do not blame the administration, and nobody can make politics out of this, because every man, woman, and

child in America was hollering about the high cost of living blaming somebody for not bringing it down. I said then th ought not to come down, at least not suddenly.

Here is an illustration of that matter from my own experie I lived through the period following the Civil War, when we wheat up to nearly $3—$2.80, anyway. Within a few years a wards I sold wheat off that same farm for 55 cents. When we the $3 wheat we were paying our farm hands $3 a day. I was a then. The year that I cut the 55-cent wheat on the same farm turned away from our wheat field just twice as many men as could use—in those days we used the sweep-rake reaper instead of binder—and we fed those men at our kitchen door as they tram the highways looking for a job. What men I hired I put to w at 60 cents a day, and I could have hired them for a quarter jus well.

Now, I have never known distress in the country except when cost of living was it its lowest, and I have never known dist when the cost of living was at its highest. So, as I say, I w prefer the higher level in my philosophy of the situation.

But the real problem now with the farmer that is out of debt— man who is in debt has some problems of his own—but to the who is out of debt, or nearly out of debt, if everybody else had fered the same collapse in his expectation of income that the far had suffered we would all have been on an equality.

Now, I have a chart here which I think we have worked out pr carefully.

Starting at the normal in 1913, down here [indicating on ch take labor and transportation. Transportation moved along way, and then when it got here it went away up there. Now, a culture followed this line out, and when it got out here it came d here. Everything else is now above agriculture, comparati Here are land values, still up here. They are coming down, you and they are now down to here. Wages went from normal u here. Farm wages have come down here, but farm products come down much lower.

Representative Ten Eyck. Is there information by which could have put a line on there showing the prices of food produc the consumer in comparison with the other averages? That i my mind, where the crux of the situation lies, looking at it fro other angle. If farm products have dropped to the point you cate they have, and the purchase price to the consumer is stil you have not started an equalization of economic conditions a all industries of the country.

Mr. Atkeson. That is right. That reduces consumption, an effect has been to destroy our market if the retail price is kep When men are out of employment and other industries are shu down, consumption falls off.

Representative Ten Eyck. Could you not put that line on the

Mr. Atkeson. We could put that on there; yes.

Representative Ten Eyck. I think it would be very interesti see that in comparison with the others.

Mr. Atkeson. These other lines show more of that, however, I think you realize. The price that the farmer gets is such a

cial.

n.

THE FARMERS BUY.

Mowers.
Muslin.
Nails.
Overalls.
Padlocks.
Paint brushes.
Paint, mixed.
Paris green.
Picks.
Pincers.
Pitchforks.
Plows.
Portland cement.
Raincoats.
Rope, hemp.
Rubber boots.
Sacks, grain.
Saddles.
Salt, for stock.
Saws, buck.
Scythes.
Sheeting.
Shingles.
Shirts, flannel.
Shoes.
Shotguns.
Shovels.
Staples.
Starch.
Steel wire.
Stoves.
Sugar.
Sulphur.
Tedders.
Tin pails.
Tobacco, plug.
Twine, binder.
Wagons, double.
Wagons, single.
Walking cultivators.
Wheelbarrows.
Wire fence.
Wooden buckets.
Wooden washtubs.

CONSUMERS' 18 FARM PRODUCTS.	PRODUCERS' 15 FARM PRODUCTS.
Sirloin steak.	Beef cattle.
Round steak.	
Rib roast.	
Chuck roast.	
Plate beef.	
Pork Chops.	Hogs.
Bacon.	
Ham.	
Lard.	
Bread.	Wheat.
Flour.	
Potatoes.	Potatoes.
Lamb.	Sheep.
Hens.	Chickens.
Eggs.	Eggs.
Butter.	Butter.
Corn meal.	Corn.
Clothing.	Wool.
	Cotton.
	Apples.
	Rye.
	Oats.
	Barley.

18 BASIC COMMODITIES.

Wamsutta sheeting.
Common brick.
Bituminous coal.
Yellow-pine flooring.
Cement.
Pig iron.
Gasoline.
Structural steel.
Sisal.
Sugar.
Sole leather.
Sulphuric acid.
Ingot copper.

Land values for 1921 estimated.

Farm wages for 1921 only 10 large farming States used.

Figures supplied by U. S. Dept. of Agriculture and Bureau of Labor Statistics.

rt of what the consumer pays that it would make but little differ-ce if the farmer did not get anything.

Representative TEN EYCK. But it would show whether or not the nsumers' price paralleled the wholesale prices on the farm.

Mr. ATKESON. Well, they have not gone down. We find that while ail prices have declined somewhat, the percentage of decline is y much less than the farmer has suffered. We are paying about per cent less this year for farm labor and other costs of production an we did last year, but the farmer has suffered a decline of 50 per nt or more in the price of his products.

Now, then, if wages would come down the same way—I do not nt to beat wages down; I wish we could keep them up, but we n not for any great length of time maintain this difference between e profits of agriculture and of other occupations without destroy-g agriculture or letting up on agriculture.

I do not expect legislation to do this letting up; it must be let on in the economy of things. That is, the farmers must produce s and less if they must continue to produce at a loss. They will tivate the most profitable acres; they will hire fewer men.

There is one thing I have noticed in traveling across the country, omething which is perfectly manifest, which bears on this question a general way. The farmers are neglecting very seriously what he railroads would call "maintenance" or "upkeep." They are let-ing their fences rot down, they are permitting briers to grow in the ence corners and in their pasture fields. There is a place down in Mason County, in my State, just across the Kanawha River from y home; there must be several hundred acres in it. Until the war me on and wages went up the owner would every summer hire en to cut the sprouts and briers and keep that land clean. To-day, oking at it from across the river, three-quarters of a mile away, you an not tell that it has ever been cleared; it is literally covered with prouts and briers and such things; there are no big trees on it, but is a bramble patch. That is going on all over the country.

Some people say that is what happened to the railroads under Government operation, they were not kept up, and some day some-body must build up these broken-down fences, clean out the fence orners, and clear away these briers.

Now, the farmers are neglecting that and concentrating their fforts and that of the men they do hire at these higher wages on the imple operation of the production of the money crop. You can see hat from the car windows from one side of this country to the other. I do not see how legislation can remedy that, but that is the situation. To save themselves they are concentrating their efforts on reducing he cost of production of the crop by neglecting the maintenance problem, which is an important problem. The upkeep of the farm s an important part of farm operation. It can be neglected for a while, but it can not be neglected forever.

Another thing, they are buying less fertilizer and are concentrat-ng their efforts on the acres that are most productive without fer-ilizer until their productiveness is reduced.

Representative TEN EYCK. Then they lose more than the $750, because this is a deferred loss?

Mr. ATKESON. All of that is a loss of capital; it is a loss in the plant, so to speak. It is a deterioration of the plant that must be

restored some time. They may say that it is an invisible or intangible loss, but it is none the less real.

Now, all those things are matters that need to be taken into consideration by your committee. The question is, Can legislation remedy the situation? You will find in the twenty-odd propositions that we have submitted, that are the product of the best thinking that our organization can give to it, suggestions at least for legislation that may ameliorate or modify or benefit. I do not think any sensible farmer expects Congress to do anything that will entirely relieve him from the consequences of inflated values, because sooner or later values had to come down in some way or other. I think they have come down needlessly rapidly. If they had come down slowly we could have hedged against them. It is like the case of a man up in an airplane; if he discovers that his machinery is slowly getting out of order he can get back to earth safely, but if it happens all of a sudden it smashes him up. Economically the farmers of the country were pretty badly smashed up in this present fall.

I have never been disposed to accuse anybody of a deliberate or malicious intent to injure agriculture. I can not conceive of anybody engaged in any occupation or associated with any political party or religious sect who would deliberately and maliciously injure the one occupation upon which the prosperity of everybody else must ultimately depend. We may think they are more aristocratic—people who engage in other occupations—that they wear better clothes, smoke better cigars, and have a better time, but that anybody or any group of individuals would deliberately do anything to injure agriculture, I can not believe. I think they are thoughtless of their own welfare in being party to anything that does tend to injure agriculture.

So it has seemed to me that our city people, our nonagricultural people, need education to-day as to the facts bearing upon agriculture more than any other class of Americans to-day. And I think they are beginning to get their eyes opened. You gentlemen here in Congress know that there is more talk in Congress, more talk in newspapers, more agitation than ever before, because the country is beginning to realize that if you hurt agriculture you hurt everybody else.

For instance, assuming that the slump in last year's prices was $5,000,000,000—and as nearly as you can get at the figures, that is a conservative estimate—they will all continue to live one way or another without that $5,000,000,000, but if they had that $5,000,000,000, if they had received it they would have expended every dollar of it one way or another; they would have bought automobiles, they would have built new barns, new houses, new silos, put in drainage systems, and that $5,000,000,000 would have paid billions of other debts and contracts, because it would have continued to operate in the business affairs of the country. But when you destroy practically the whole of the farmers' purchasing power—and they represent one-third of the people of the country, and fully one-half of the purchasing power of the country—and that $5,000,000,000 not only took all of their profit but a large part of their accumulated revenue that they had put into the cost of production.

There is talk about a buyers' strike. So far as the farmer was concerned it was not a buyers' strike; they just did not have the

money. They just quit. They quit buying because that was the only sensible thing to do. And when they failed to spend that $5,000,000,000 other people began to look around for buyers and everybody began to slow down. The factories began to find that they could not sell their products, and so they began to lay off men, and the men were out of employment, and so they could not eat quite so much, and they had to slow down. And everybody feels the slowing down process, but if you could have maintained the price of farm products—I do not know any magic way by which it could have been done; I confess, I give it up—but if it could have been done, if you could have given the farmers that $5,000,000,000, the situation would be much better. I think the farmers have practically reached the bottom of the well. There are going to be some fluctuations; there always has been, and always will be.

Now, the attitude of other people has a direct bearing on the getting to shore on this proposition. A doctor in this city was in my house the other Sunday—this is worth mentioning, because this applies to all the other doctors in Washington—and he took occasion to get off quite a lengthy tirade against union labor for not reducing their scale of wages along with the price of the farm products, and other products in the country. When he got through with his story I said, "But, Doctor, when I came here only a few years ago, you charged a certain fee to come around to my house, and now you charge me just twice as much." I said, "If union labor should come down, as we farmers have come down, why should you not reduce your charges in the same proportion?" Mr. Doctorman went right up in the air. He said, "That is a different proposition. That is personal service." So it is, but these farmers have to pay for it. He got up there during the war time, and now does not come down. The same thing is probably true of the charges of lawyers and other professional men.

I was talking not long ago with a rather prominent union labor official, and I predicted that the price of union labor must come down. He got very excited, and said that labor was not a commodity and that wages should not be reduced. I reminded him that nobody would employ labor at a greater price than the cost of what labor would produce plus a profit; that while labor may not be a commodity, it can not be expended in the production of a commodity if the price of the commodity will not pay the cost of the labor, plus at least a gambler's chance for a profit.

Now, this is what has happened, and the statement was made in the press this morning by somebody—by the Secretary of Labor, I believe—that there were nearly 6,000,000 men out of employment in this country. Their income is cut off, and those millions of dollars that they might spend they can not spend, because they are just like the farmers, they can not spend it because they do not have it.

Now, if it is true that there are 6,000,000 men out of employment, it is only a reasonable probability that between now and next spring there will be many more men out of employment, and possibly bread lines and soup kitchens all over this country, which would be a calamity indeed.

Agriculture got hit first, and got hit worst. I do not consider it as bad off as what may come to some other people. I wish I could save all of our people from want and poverty. I do not have any

malice against any of them. But I do not think there is enough wisdom in the United States, or in Congress, to cure all the consequences of the four years of destruction. But when you begin to reduce the purchasing power of any great group of our people, you must reduce the price of commodities. That is as certain as that one-half of 4 is 2. And not having reduced the commodities of the farmers and the factories, we find we have overproduction, or, to put it the other way, we say we have underconsumption, and with overproduction or underconsumption, we find that somebody must pay the cost anyway.

Just one other thing that is a climax to it, and I beg the indulgence of the commission for this. It is only an illustration of where we may be coming to. I remember that I helped to drive nails into a fence that my father was building, for which he paid $8 a keg right after the Civil War. Within a few years afterwards—I can not give the dates—I helped to drive the same kind of nails, for which my father paid 90 cents a keg. And the same nail mill that had made the nails at $8 had made the nails at 90 cents. But that nail mill went into bankruptcy and shut up and has not made a nil from that day to this, and there isn't anything left of the old mill except some few stones of the foundation.

Now, we were able to pay $8 a keg for nails at that time and did it cheerfully, for we were then getting $30 a ton for hay, which was considered a tremendous price, and we were getting nearly $3 a bushel for wheat. But when conditions came that we could buy nails for 90 cents the nail mill went into bankruptcy and we did not. While we were hurt to beat the band, the nail mill was hurt to beat two bands; it was put out of business.

Now, I don't know how far the present tendency is going in that direction. I hope that Congress and people of large wisdom can put the brakes on this situation, because it is becoming serious to all of us. Maybe we could afford to let it go if it were only serious to the people out in the country, but that is not true. It is not limited to the people in the country or to any one group in this present situation. I am hopeful—constitutionally hopeful, because I believe that these American people, with all these large, productive fields and their great energy, with all the resources of this great country, are going to get through this situation somehow; and we all hope that it will be with the least possible distress, and that the time may be not very far off when we will get things adjusted one to the other. And that is inevitable; they must be adjusted on a sound economic basis.

The house on my farm in which I was born burned last fall; it has been a tenant house for years. It burned and we were very much in need of a tenant house, and we made some investigation about getting carpenters to build a new house. We could not find carpenters short of the city of Charleston, 35 miles off, and the union carpenters' scale of wages was an 8-hour day and $1.25 an hour. We just quit. And we will keep our farm hands in tent or we will keep them in the woodshed; we simply will not build a tenant house and pay $1.25 an hour for an 8-hour day. A man is not going to stay in the country at a dollar a day if he can get $1.25 an hour on carpenter jobs. He would be a fool if he did.

Now, our carpenter friends are injuring themselves, if they only knew it. We must all stay up or we must all come down.

Mr. Hoover tells us that the great need of the country is houses, which is true except in the country. And everybody in the cities is complaining about high rents. If the carpenters and other mechanics of this country would go to work at half what they are now demanding and work a 10-hour day, it would not be 12 months until the rent question would take care of itself. But just so long as they keep up the cost of construction to where it is nobody will build a house without a reasonable expectation of a high rent. Of course, he will not. It is like my tenant house that burned; I am not going to rebuild it, but I would rebuild it if I could hire carpenters at about $3 a day.

And these things all hook one into the other. You can not have a collapse of any great class of our citizenship, whether laborers, mechanics, or professional men, or engineers, or manufacturers, or whatnot, without affecting everybody else. So that anybody that thinks he is going to escape what has happened to the farmers will be mistaken, and you tell him on my say-so that he can not do it. He has got it coming to him in a greater or less degree. And the more he can do to save and help the farmers the less the calamity will come to him. That is, he is interested in helping agriculture to recover a price that will pay the cost of production plus a profit. We hope to meet you coming down as we go back up.

Now, if Congress can help and the manufacturing interests can help by tariff laws or any other laws that are economically sound, all right. We are with you for general prosperity.

Now, we can raise the price of farm products between now and next week up to war prices, as was suggested to me this morning, if we start the printing presses on a Treasury note like our old greenback currency, and if we printed enough of them, but they would probably be 50-cent dollars. We do not want to cure this condition by a medicine that will be worse than the disease. I am not statesman enough to see all the way out. It is a serious proposition that this commission has to deal with. We have indicated some measures of legislation that we think will be helpful. And I think Congress is willing to accept any reasonable suggestions that will help.

Now, gentlemen, I have taken up a good deal of your time, and I thank you for your indulgence.

The CHAIRMAN. You have made a very interesting statement, Mr. Atkeson, and we are very much obliged to you.

Now, Mr. Butterworth, we will be glad to hear you. Will you please give your full name and address to the reporter?

STATEMENT OF MR. EDWARD T. BUTTERWORTH, CORNER SECOND AND DOCK STREETS, PHILADELPHIA, PA., MEMBER OF THE FIRM OF G. W. BUTTERWORTH AND PRESIDENT OF THE INTERNATIONAL APPLE SHIPPERS ASSOCIATION.

Mr. BUTTERWORTH. Mr. Chairman and gentlemen of the commission. My name is Edward T. Butterworth. I am a member of the firm of G. W. Butterworth, with offices at the northeast corner of Second and Dock Streets, Philadelphia, Pa.; and also president of the International Apple Shippers Association, general offices of

which organization are located at Rochester, N. Y. My firm is engaged in the wholesale handling of fruits and vegetables.

I am here at the request of Chairman Anderson to make a statement on certain points relating to Philadelphia's terminal facilities for perishables as outlined in his letter to me under date of July 22, 1921.

Before entering upon a discussion of that subject, however, I desire, as president of the International Apple Shippers Association, to assure you of our interest in the inquiry that you are conducting and also to assure you that we, as an organization, are desirous of cooperating with you in any way that we can and that we will at all times be only too glad to give you any information that we have that will throw any light on the matters that you are investigating. We have in our trade three large organizations, the International Apple Shippers Association, the National League of Commission Merchants of the United States, whose general manager and secretary, Mr. R. S. French, has accompanied me here, and the Western Fruit Jobbers Association of America. The officers of these three organizations form what is known as the joint council for consideration of matters of vital interest to the whole industry. The joint council, therefore, represents approximately 1,500 firms handling fruits and vegetables in a large way or perhaps 75 per cent of the largest distributors of these commodities in the country, probably handling, in the aggregate, at a rough estimate, 750,000 carloads of fruit and vegetables per year. The joint council is now working on a trade survey with respect to certain representative commodities as handled by representative firms in representative markets, and I understand that they expect to testify before this commission in September and I am convinced that the information that they will lay before you will be of value to you in your investigation.

I am here to-day simply as a member of the Philadelphia trade engaged in the handling of perishables. As I understand it, your purpose in calling me is to have me give you a sort of picture of the physical conditions surrounding the handling of perishables in the Philadelphia market, particularly with respect to terminal facilities, which will serve as a background, so to speak, for your further investigations.

It is necessary at the beginning for you to understand the method of distributing perishables in Philadelphia—that is, through whose hands they pass en route to the consumer and why. The present chain of distribution which has developed through natural evolution consists of the wholesaler, or car-lot receiver on the market; the jobber, to whom he sells for the most part in less than car lots; and the retailer, who buys from the jobber—except when his business is large enough to permit him to buy in sufficient quantities to purchase his supplies from the car-lot receiver—and distributes to the consumer.

It might be well at this point to say just a word about the large retailer. During the last few years a method of retail distribution of fruits and vegetables similar to the chain-store distribution of dry groceries has sprung up and developed, but not, however, on as large and comprehensive a scale as is the case with the chain-store grocers. These chain-store grocers themselves also handle certain staples extensively, to-wit, potatoes, onions, oranges and lemons, and, at

certain seasons and under certain conditions, apples, and occasionally other fruits. This chain-store distribution has a decided tendency to regulate retail prices and retail profits and hold them down to a reasonable basis. This is particularly true of the smaller organizations having two or three or several stores and handling fruit and vegetables exclusively. They usually operate on the cash-and-carry plan. Their store fixtures are crude and inexpensive; they display fruits and vegetables in mass; give the minimum of service to their customers, and hence operate under a comparatively low overhead. All of the above two classes of retailers buy the bulk of their supplies, and particularly the staples which they handle in large quantities, direct from the car-lot receiver, and on that account they would seem to eliminate one handling. But this is true only to a limited extent, because, especially in the case of the larger organizations, they have to maintain a central warehouse and distribute in small quantities from such warehouse to the individual stores, so that to a very considerable extent they assume the place and function of the jobber and his overhead expense.

There are a number of terminals in Philadelphia where the jobbers and larger retailers go to purchase their supplies of the various perishable commodities from the car-lot receivers. There are two principal jobbing sections located near the Delaware River front about six blocks apart, where between 300 and 400 jobbers operate their stores and sell their commodities to the smaller retailers, peddlers, restaurants, hotels, institutions, and all of the other classes of trade who buy from the jobber. The retailers, of course, are spread out throughout the entire city and the suburban sections, so that the consumer is reached at every point.

Philadelphia, as you know, is situated at the junction of the Schuylkill and Delaware Rivers, the latter, of course, being the great waterway along which the port of Philadelphia is located. I have brought with me a map which I have lettered and marked in such a way that, in conjunction with my testimony, will enable you to visualize clearly the terminal layout of Philadelphia. I will leave this map with you as an exhibit.

Now, as to wholesale terminals. For purposes of this brief survey perishables may be grouped into two classes—bulk commodities and package commodities. Bulk commodities consist almost entirely of potatoes and cabbage grown in the northern and central part of the eastern section of the United States and marketed in the fall, winter, and spring seasons, and watermelons grown in the southeastern and central eastern territory and marketed during the summer months. Bulk potatoes and cabbage, and occasionally bulk apples, are handled at present at the Philadelphia & Reading Railway potato yard at Second and Master Streets, which has a team track capacity of approximately 125 cars and is designated on the map by the letter C; and at the Pennsylvania Railroad potato and melon yard at Thirty-first and Chestnut Streets, which is designated on the map by the letter D and which has a total team track capacity of approximately 150 to 175 cars. Watermelons in bulk by rail are handled only at the Pennsylvania Railroad yard, Thirty-first and Chestnut Streets. It should be noted in this connection that the Reading yard is 29 blocks east and 13 blocks north of the Pennsyl-

vania yard. By blocks I mean city blocks. It should also be noted that the Reading yard is 9 blocks north of the Vine and Callowhill Streets jobbing center noted on the map by the letter B and 15 blocks north of the larger and more important Dock Street jobbing center, designated on the map by the letter A; also that the Pennsylvania potato and melon yard is 30 blocks west of the Dock Street jobbing center and 30 blocks west and 6 blocks south of the Vine and Callowhill Streets jobbing center.

Package perishables coming from all points of origin in carloads by rail are unloaded and sold in the depots and to a small extent from the very limited team tracks of the Pennsylvania Cold Storage & Market Co., at Thirtieth and Chestnut Streets, designated on the map by the letter E, which company acts as terminal agent for the Pennsylvania Railroad Co., receiving in compensation a fixed tonnage charge. The team track capacity there is approximately 30 cars. There are three large covered depots, portions of which can be heated from the power plant of the cold storage. The cold storage is built partially over one of the depots and is operated in conjunction therewith. Different commodities are handled in different depots. Sacked potatoes and onions and crate onions are handled in one depot; green vegetables of all kinds are handled in another, and fruits in the third depot. But this arrangement is not constant and varies with the different seasons and as the different commodities are in heavy or light receipt. Carloads arriving at this depot are unloaded during the night and the different marks sorted and piled separately but compactly. Unloading ceases in the morning one-half hour before the depot opens for the sale of goods. No salesmen are allowed on the floor and no packages are permitted to be opened until unloading stops. The salesmen have one-half hour before buyers come on the platform to locate, check up, count, and sign to the carrier for their receipts.

The maximum number of carloads of package fruits and vegetables that have ever been unloaded and piled up for sale at one time on these platforms is said to have been 252 cars, and under this load the 3 depots were so badly congested that it was almost impossible to get the receipts moved in any reasonable time, and in many cases impossible for salesmen to get at cars to sample and sell them until part of the receipts were hauled off to relieve the congestion. The largest number of cars unloaded in any one day this past season was 132 and it may be said that the capacity of these depots is approximately 125 to 150 cars to unload and display properly and handle quickly without congestion. At this terminal there are probably handled at least 50 per cent of the package perishables received in car lots by rail, including most of the potatoes that come in barrels or sacks, all of the sacked and crated onions and nearly all of the southern grown and California green vegetables and southern fruits, practically all of the barreled apples from all sections, and practically all of the western boxed apples and Florida citrus fruits that are sold at private sale. The greater part of the heavy receipts of New York State and Pennsylvania fruits of all kinds as well as vegetables, are also unloaded and sold in this terminal. It should be noted that this terminal is approximately the same distance from the two jobbing centers as the Pennsylvania yard at Thirty-first and Chestnut Streets. In other words, the Dock Street jobbing center lies 29 blocks east of

it and the Vine and Callowhill Street jobbing center 29 blocks east and 5 blocks north. In view of the fact that it is customary to figure distance in Philadelphia roughly on the basis of eight average city blocks to the mile, it is not difficult to understand just what these distances mean.

Two more very important terminals, which, as they are immediately adjoining each other, may be considered as one, are the B. & O. Railroad pier No. 12, north wharves, Delaware River at Race Street and the adjoining Pennsylvania Railroad Pier just north of it at Vine Street, at which are handled at auction all of the receipts of citrus and deciduous fruits from California and the other Pacific coast States and practically all the receipts of citrus fruits from Florida. The cars are unloaded on these piers by the railroad company and lined up and catalogued by the Philadelphia Auction Co. and later sold at auction from the catalogues in the auction room on the second floor of the B. & O. pier. The samples are opened by the Philadelphia Auction Co., the buyer being privileged to open any other packages for inspection that he may desire, provided he leaves them closed up in original condition. The president of the Auction Co. informed me that the maximum receipts ever unloaded and sold at this terminal in one day was 92 cars and that the average receipts the year around are probably about 40 cars per day, there being no sale held on Saturday. These two terminals are indicated on the map by the letter F and are more conveniently located than any of the other terminals mentioned, being within a block or two of the Vine and Callowhill Street jobbing center and only six or seven blocks from the Dock Street jobbing center.

There are a few other unimportant rail terminals. Vine Street freight yard of the Pennsylvania Railroad adjoining Vine Street Pier and the river front, designated on the map by the letter G; the Philadelphia & Reading freight yard at Noble Street on the river front; and the Philadelphia Warehousing & Cold Storage Co., which adjoins the Noble Street yard and which acts as terminal agent for the Philadelphia & Reading Railway, designated on the map by the letter H. Both of these yards handle a few cars of perishables, but the receipts are very limited and no trade goes to these yards regularly to purchase supplies. At American and Berks Streets is the Industrial Cold Storage & Warehouse Co., designated on the map by the letter J, which also acts as terminal agent for the Philadelphia & Reading Railway Co. and receives a limited quantity of apples every year for storage.

We must also consider as important terminals the two jobbing sections at Dock Street and vicinity and Vine Street and Callowhill Street and vicinity, designated, respectively, on the map by the letters A and B, because of the fact that the heavy receipts by vehicle from near-by territory and all express shipments, except solid carloads, are received and sold at the jobbers' and receivers' stores in these sections. During the summer season, especially, the greater part of Philadelphia's fruit and vegetable supply comes from this near-by territory, and the receipts are considerable throughout the year, but lightest, of course, in the late winter and early spring months, before the new crop of vegetables comes on. The location of the two jobbing centers is logical, being due to the fact that the major portion of these near-by receipts by vehicle, originates in

New Jersey—the teams and motor trucks crossing the river on Market Street and Chestnut Street ferries close to the Dock Street center and on the Vine Street Ferry adjacent to the Vine Street center. Then, too, a certain proportion of the near-by receipts originating north or south along the Delaware River or Delaware Bay comes into Philadelphia by boat and unloads at the various docks along the river, which lay for the most part between the two jobbing centers. Therefore, I say that the location of these jobbing centers is natural and logical, and this is also emphasized, of course, by the fact that there is considerable distribution from the jobbing sections by boat up and down the Delaware, although this traffic has of recent years declined in importance with the rapid growth of motor-truck hauling.

The foregoing gives you a general picture of the terminal facilities for perishables in Philadelphia, and in relation thereto I will discuss for a few moments the points brought up by Chairman Anderson in his letter to me, which I have previously mentioned.

(1) *The adequacy of existing facilities.*—Pennsylvania Cold Storage & Market Co. (see map E), which as a railroad depot is known as West Philadelphia Market House, was organized and put into operation about the year 1888; it was built to accommodate the Pennsylvania Railroad's package receipts of perishables at that time. Its facilities have not been increased to any appreciable extent since that time, the natural limitations of the location being such as to make such increase difficult if at all possible. Since that time, however, the population of Philadelphia has increased about 80 per cent, and there has also developed with prosperous times a greater appreciation of the value of fresh fruits and vegetables for food, with a consequent increase in per capita consumption. It is axiomatic, therefore, that the depots at West Philadelphia Market House are antiquated in form and handling methods and inadequate to the present needs of the city. The question of adequacy or inadequacy of terminal facilities, in my opinion, should be considered in terms of the peak load, and if facilities are not sufficient to properly take care of receipts at the time when they are heaviest they must be considered inadequate. Under present conditions the carrier compels the consignee to sign and receipt for and take delivery of cars on the platform before the market opens, giving the carrier a clear receipt, and disavows any responsibility for the safety of the lading thereafter, it being entirely up to the consignee, so they say, to watch his cars and prevent stealing and pilfering until the goods are moved from the platform. Incidentally the receivers deny that the carrier has a right to absolve itself in this way from all responsibility, and our contention has recently been substantiated by a decision of the United States Supreme Court, to wit, Mark Owen & Co. *v.* Michigan Central Railroad. However, that is neither here nor there; the market company, as agent for the carrier, takes a similar position; consequently the successful operation of this method of handling from an efficiency standpoint is predicated on the segregation of all of each consignee's entire receipts on any one day at one point on the platform; but, unfortunately, the physical situation is such that the market company is unable to do this under pressure of even moderately heavy receipts. Consequently the receiver has to employ more help at the depots than would be

necessary if he could depend upon having his receipts properly segregated at all times, and this is reflected in his overhead, or cost of doing business. Pennsylvania Railroad officials in conference have freely admitted the inadequacy of the facilities at the market house and promises for improvement have been made, but it is the belief of the trade generally that the possibilities for improvement and expansion there are extremely limited and not in line with the contemplated growth of the market. For purposes of quick handling the team track capacity of about 30 cars of this terminal is used for unloading direct from the cars to delivering trucks, the commodities being sold from samples placed on the platform prior to the opening of the market, and this relieves the congestion to some extent. It would be possible to materially relieve it in the busy spring months if cars were permitted to be placed in the Thirty-first and Chestnut Streets yard (see map D), with the privilege of sampling on the platforms at the market house, but the market company does not permit this in view of the fact that no tonnage charge accrues to them on goods unloaded from tracks at the Thirty-first and Chestnut Streets yard, which is good business from the standpoint of the market company, but bad business from the standpoint of efficiency of handling in time of congestion.

Connected with one of the three large depots is a cold-storage plant, with a capacity of possibly 350 to 400 cars under refrigeration. If a car is unloaded on this platform it can be trucked into cold storage by hand and later sampled out of cold storage for sale at any time with no additional charge other than the regular cold-storage rate, and so far as this goes it is an admirable arrangement; but unfortunately the cold-storage space available here is only a small fraction of what is needed for a market like Philadelphia, and it is not possible to sample commodities stored in other cold-storage houses in the city, at this point where the real market is located, except at prohibitive cost and with unreasonable delay. And it is not possible to ship or switch a car from any of the other cold-storage houses in Philadelphia to the market house except at a cost so high as to be almost prohibitive. I will touch on this again later.

Pennsylvania Railroad potato and melon yard, Thirty-first and Chestnut Streets (see map D), which has an accessible team-track capacity of 150 to 175 cars, is not adequate to handle the peak load at time of heaviest receipts, and the yard itself is about three blocks long, which makes the handling of cars placed at the lower end of the yard three blocks away from the wagon scales—inconvenient, to say the least.

Philadelphia & Reading Railway potato yard, Second and Master Streets (see map C), with team-track capacity of approximately 125 cars, is totally inadequate to handle the Philadelphia & Reading Railway Co.'s receipts of bulk potatoes, cabbage, and some other commodities, such as apples, turnips, carrots, during the heavy fall and winter months. We have frequently in past years seen times of heavy receipts in the early winter when the Philadelphia & Reading would have 200 or 300 cars on track in their storage yard at Erie Avenue (see map K), which are not delivery tracks, can not be reached by teams, and where it is even extremely difficult for the consignee in times of emergency to protect cars from damage by cold. The driveways in the Second and Master Streets yard are narrow

and congestion is always severe and delay serious when the yard is full, as it is practically all of the time for at least six months in the year. Receivers are limited as to the number of cars that they may have on track and work on at one time, and this seriously slows up the handling and prevents the prompt release of equipment, which is so extremely important in times of car shortage.

Pennsylvania Railroad pier, Vine Street, and Baltimore & Ohio Railroad pier adjoining (see map F), facilities for unloading and displaying cars at this terminal are adequate for the present, as a result of recent improvements, but facilities and handling methods involved in distribution by vehicle after sale are antiquated and congestion is always severe when receipts are heavy, with consequent delay.

Dock Street and Vine Street jobbing centers considered as terminals for the handling of fruits and vegetables of all kinds that are hauled in by team and motor truck from all near-by producing sections of New Jersey and Pennsylvania (see map A and B). A number of city thoroughfares are involved in these two sections, most of which are narrow; receivers are badly cramped for space; congestion of traffic is always severe in the busy hours of the day in the heavy season. Furthermore, this business is handled in both a wholesale and jobbing way simultaneously in the sections, which results in an enormous amount of congestion, confusion, and lost motion, and therefore in unnecessary delay, waste, and cost.

(2) *Unnecessary hauls and duplications.*—All of the principal terminals excepting the auction terminals on the river front (see map F) are too far distant from the jobbing centers (see maps A and B). The most serious situation in this regard is the West Philadelphia Market House (see map E) and the melon yard at Thirty-first and Chestnut Streets (see map D), which are approximately 30 blocks distant from the Dock Street center (see map A), and 35 blocks from the Vine and Callowhill Streets center (see map B). This involves a long team haul with consequent waste of time, and in the case of the sections of the city lying west of the Schuylkill River in many cases a long back haul with its additional cost, loss of time, and hence unnecessary deterioration and waste.

As to duplications, under present conditions perishables are sold simultaneously at all these different terminals, and it is necessary for buyers and salesmen to cover all of these various terminals in the course of their daily business. A large wholesaler receiving goods in all these terminals has to have a force of salesmen to cover them, all, while on the other hand a large jobber purchasing his supplies in all these terminals has to have buyers to cover them all. If either can not afford this, it slows up their business, or if they have sufficient force it makes their overhead or expense of doing business unnecessarily large, and excessive overhead must always affect in its reaction either the producer or consumer, or both.

If all of these terminal facilities could be coordinated and centralized in one convenient spot close to the jobbing centers, the situation would be vastly improved from every standpoint. But of this more later.

(3) *The results on producer's prices and consumer's prices of the existing terminal wholesale facilities.*—It would be utterly impossible to determine this with any degree of accuracy, but it can

be stated as a fact that lack of proper facilities resulting in congestion and delay in the handling of perishables invariably means waste. Time is the all important factor. The inherent nature of the products demands the quickest possible handling from the receiving terminal to the consumer's table; not only that, the public may receive the products in fresh and wholesome condition, but in order that there may be a minimum of deterioration and waste. Quick and efficient handling means conservation; slow, cumbersome, and inefficient handling means wastage and loss, the amount of which can not be reduced to a definite statement of dollars and cents, but which is nevertheless very real.

(4) *The relative situation as to terminal facilities now with the adequacy of terminal facilities 10 years or more ago.*—Without going into the case of each terminal separately it may be said that while there has been some attempt at enlargement and improvement in some of the terminals during the last 10 or 15 years, yet taken as a whole the improvement has been totally inadequate to take care of the present requirements and anticipate the future growth of the Philadelphia market.

(5) *Suggestions for improvement.*—I will take the liberty of summarizing briefly and very generally what I believe and what the members of the Philadelphia trade generally believe to be the one thing that Philadelphia needs and eventually must have, and that is centralization of all the terminal facilities for perishables in one huge union central terminal market, to which all of the railroads entering Philadelphia should have access on an equal basis, and within the confines of which all of the wholesale handling of perishables should be carried on, whether entering Philadelphia by rail, water, or vehicle. Such a terminal should be located at a point adjacent to the Delaware River front and to the two jobbing centers. Connected with the terminal should be ample dock facilities to provide for the development of import and export business as well as river and coastwise shipping. Such a terminal market should have a team track capacity of not less than 500 or 600 cars, with driveways of ample width to insure speedy unloading and avoid congestion of traffic. The platforms of floors of the market itself should be ample to accommodate the unloading without congestion of at least 250 to 300 cars, the proper segregation of each consignee's receipts at one point, and the quick movement of the commodities from car to platform and from platform to delivering trucks. The construction of such a market should be planned by experts, with the cooperation of a selected committee of men experienced in the handling of perishables in this market, and due regard and consideration should be given not only to the present needs of the market but its future growth for many years to come. The most modern, rapid, and economical method of internal handling should be worked out; ample yard and platform space should be provided for the wholesale sale and distribution of near-by produce hauled to the market by motor or horse-drawn vehicles. In conjunction with the market there should be a commodious and properly equipped auction room, an office building, and also a cold-storage plant of large capacity, with ample space available also for ordinary or dry storage. Nothing is more important for the proper conservation of perishable foodstuffs than ample and conveniently available storage space.

In order that such a comprehensive terminal market should reach the maximum of efficiency in the interest alike of producer, handler, and consumer, a number of necessary changes would have to be inaugurated in the whole transportation practice of the railroads in the Philadelphia district. These might be enumerated as follows:

First. Diversion and reconsignment: As far as is practicable it should be made possible to divert any car before it arrives in the terminal to any of the smaller markets tributary to Philadelphia and within a radius of, say, 100 to 150 miles, at the through rate of freight from point of origin to point of final destination, plus a reasonable diversion charge, and the same should apply to all cars after arrival in the terminal, with the addition of a reasonable charge to cover the switching in and out.

Second, preferential rates should be established on solid and mixed cars of fruits and vegetables for shipment from the terminal to outlying depots in the city limits and to smaller tributary markets within a radius of 100 to 150 miles. A buyer from Reading, Lancaster, Harrisburg, Wilmington, Trenton, Allentown, Scranton, or Wilkes-Barre should be able to buy a car of fruit or vegetables in the terminal and ship to his market at a low freight rate. Again a buyer should be able to purchase a part car of any commodity on track and fill the car up with a variety of other fruits and vegetables, if desired, and get the benefit of such a preferential rate. This would mean conservation of food products and a quick and easy flow of perishables from a glutted market in Philadelphia to points where the surplus could be consumed to advantage. This would save annually an enormous amount of waste as well as expedite release of equipment in times of very heavy crop movement and consequent car shortage.

Third, switching within the city limits: As an additional conservation measure, it should be made possible to move cars of fruit and vegetables from the terminal to other cold-storage plants located on railroad tracks within the city limits and from such storage houses back to the terminal at a reasonable switching charge. The advantage of this from a conservation standpoint is obvious. On a glutted and demoralized market many dealers would be only too glad to anticipate their future requirements and purchase heavily and thereby relieve the market, switching cars to other city storages, if the capacity of the terminal storage was overtaxed, and the surplus thus conserved would be available to prevent the reaction to extreme values, which so frequently occurs after a glut and is due to the stoppage of shipments which have caused shippers serious loss, since such cars could be as easily loaded and switched back to the terminal to take care of unusual demand. The physical facilities to accomplish this are already to a large extent available in the form of the Philadephia Belt Line Railroad, which, although at the present time only existing in the form of tracks and a franchise, yet in connection with the Pennsylvania, the Reading, and the Philadelphia River Front Railroad, extends along the entire Delaware River front and connects up the different railroads entering the city. Unfortunately, however, the existing traffic arrangements and agreements are such as to make the actual use of this belt line in a practical way for such a purpose an impossibility. One example will suffice, though many could be cited: The Philadelphia Warehousing & Cold

Storage Co. is located on the tracks of the Philadelphia & Reading at Noble Street (see map H). Vine Street Pier, where a car may be unloaded and sold at auction (see map F), is only two blocks distant. The track connections are complete for a simple switching movement, and yet under existing agreements between the roads a car shipped from the Philadelphia Warehousing & Cold Storage Co. to Vine Street Station must move over the Philadelphia & Reading tracks to Belmont interchange (see map L), where the Pennsylvania Railroad takes it and hauls it back to Vine Street Station, making second-morning delivery. And for this unnecessary movement and delay the shipper must pay a rate of 17 cents per hundredweight, amounting, in the case of a normal car of 756 boxes of western apples, to $64.26 without the war tax. How can efficient distribution be accomplished under handicaps of this kind? I understand that a far different situation obtains in Chicago, where something like 50 trunk lines are connected up by the Chicago Belt Line Railroad and where cars can be freely interchanged between these trunk lines over the belt line railroad at a nominal switching charge of something less than $10 per car.

To sum up; a terminal market such as is here suggested would, in the opinion of the Philadelphia trade, conserve food products, eliminate unnecessary delay and waste, and cheapen and make more efficient the machinery of distribution. As to how such a comprehensive plan could be financed and worked out I am not prepared offhand to say. Possibly by the interested railroads and the municipality in conjunction. In any event, it would have to be so planned as to secure the improvements without saddling any unnecessary increase in overhead on the handler. With such facilities an accomplished fact, increased volume and greater efficiency of operation would undoubtedly reduce the dealers' overhead materially and the naturally keen competition would insure that this would react for good to both the producer and the consumer.

A terminal of this kind should be concerned with wholesale distribution only, although a comprehensive plan might easily include a large number of model sanitary stores for jobbers of fruits and vegetables. But the two functions of wholesaling and jobbing should be kept absolutely separate one from the other and the retail phase of distribution should be kept absolutely out of the consideration. It is impossible to mix up these functions and to attempt to do so would completely defeat the very end in view.

The working out of the details of such a terminal project is a task for the transportation expert, the engineer, the architect, and the financier. I have simply suggested a very vague and general outline of a plan, but I am firm in the belief that any real improvement must be along these lines. There is not and can not be any more important factor in the welfare and development of the individual citizen than his daily food supply and the proper working out of such a plan in Philadelphia on a practical basis would, to my mind, insure the economical and efficient handling of perishables in that market for all time, and would prove a far-reaching conservation measure and furnish an example which other markets might well follow.

Immediately following the armistice, during the administration of Mayor Thomas B. Smith, a resolution was passed by the city coun-

cils authorizing the appointment of a market commission and later an appropriation of $10,000 was made for its use. Dr. Clyde King and myself both had the honor of an appointment to that commission. The tentative plan which I have outlined above was suggested to the members of the commission in advance of its organization and was favorably received; the commission was in existence about one year, held several meetings, organized and appointed committees, and made tentative plans for a preliminary survey. The commission, however, was composed of representatives of too many and varied interests, and as a result of some discordant elements within itself it was sidetracked from its real purpose and accomplished nothing. When the present mayor, Hon. J. Hampton Moore, took office the commission resigned in a body in order that the new administration might have an entirely free hand and the matter was allowed to lapse at that point and no further action has been taken.

This pretty well covers the subject, and is about all the information that I am able offhand to give to you and I hope that it will serve your purpose to some small extent at least. There may be some questions that you would like to ask; if so, and it is possible for me to answer them, I shall be very glad to do so.

The CHAIRMAN. Can you give us any idea of the cost of handling fruits and vegetables from the producer to the retailers?

Mr. BUTTERWORTH. I can not. Anything I could give you on that would be merely conjecture, and our trade is now developing that sort of information to be given later to this commission, as I understand it, and that information will be accurate. So it seems it would be futile for me to make a guess at a thing of that sort now, when actual information is being collected on the subject.

My colleague, Mr. R. S. French, general manager and secretary of the National League of Commission Merchants of the United States, is in the room and I think that he can answer as to whether the trade survey will cover your question or not.

Mr. FRENCH. Let me have that question again, Mr. Chairman.

The CHAIRMAN. The intervening cost between the producer and the retailer?

Mr. FRENCH. No; the investigation which we are making contemplates a survey of the sale of fruits and vegetables through the wholesaler and jobber. The intervening spread between the retailer and the consumer, I think, will have to be developed by the retail dealers. I might say in that connection, Mr. Chairman, that I have had two interviews with your traffic man, Mr. Conn, to whom I submitted our proposed plan of investigation. Mr. Conn says it was one of the most complete, if not the most complete program he has seen, and that is just what he is seeking. We are doing this on the f. o. b. and commission basis in various cities, such as Denver, Chicago, Pittsburgh, Philadelphia, New York, and Boston, as representative of the biggest markets in the country. And it represents millions of dollars of business, and shows the cost of handling the product from the time of leaving the producer to the time of sale through the wholesaler. I think it is going to be a most illuminating bit of evidence for the commission, and we hope to have it ready some time in September.

The CHAIRMAN. That will be very interesting and helpful, I am sure.

[To Mr. Butterworth.] You would not be willing to make any sort of a guess as to the amount which might be saved to the public by the right kind of adequate terminal facilities?

Mr. BUTTERWORTH. It would not only be impossible to guess at it, but it would be impossible to arrive at it in any way under the present circumstances. It all comes back to the same idea that I mentioned in my testimony, namely, that the quick handling of perishables is the keynote of success in avoiding waste. You can not get away from it. For example, to illustrate what I mean. A jobber buys 50 packages of peaches, which are highly perishable. He is some distance from the terminal; his delivery is delayed; he gets those peaches—which he should have had at 8 o'clock in the morning—at 10 o'clock, and thereby loses the trade that would have bought those peaches during the two hours lost; possibly, if he had had them on time, he might have cleaned them up. As it is, he has to carry some of them over until the next day, they deteriorate overnight, and he takes a heavy loss. The next day he is not nearly so keen to buy peaches as he would have been had he cleaned up that lot the day he got them at a profit. If many buyers have had the same experience and feel the same way, he will buy peaches the following day at less money, all other things being equal. There is a direct reaction of inefficient handling upon the producer or shipper of the goods.

The CHAIRMAN. I had particular reference to the costs resulting from demurrage, back hauls, and propositions of that sort, rather than savings due to quicker handling or prompt handling.

Mr. BUTTERWORTH. It is a pretty hard thing to figure out in a specific case—impossible in a general way. With proper centralized terminal facilities, coupled up with proper shifting and diversion and reconsignment facilities, a great deal of the cost of demurrage, for example, might be saved. Let us take a hypothetical case. A shipper up in Pennsylvania ships a dealer in Philadelphia without notice a car of poor quality, badly graded potatoes on a low market. At the time of arrival they may be difficult—in fact, almost impossible—to sell in Philadelphia. The dealer can not get an offer on them; they lay, and demurrage accrues, the lading deteriorates, and the equipment is not only tied up but the space it occupies on the delivery tracks is also tied up. There are places up in the coal fields in Pennsylvania where consumers are not particular as to quality, and they would take that car of potatoes quickly at a reasonable reduction in price from the price of good stock, but the cost of getting it there is prohibitive. If, on the other hand, it could be moved at a reasonable cost, after taking one look at it, the dealer would be burning the wires to place it where it would bring what it was worth, so that he could get into the yard in place of it something that the trade would take. The car would move and the equipment and the track space it occupied would shortly be released.

Representative TEN EYCK. The idea of the chairman was the tangible cost, if you can obtain it, resulting from congestion.

Mr. BUTTERWORTH. It would be impossible to estimate it.

Representative TEN EYCK. I do not think the cost of congestion is as much as the intangible cost often is to the distributor.

The CHAIRMAN. That is possibly true.

Representative TEN EYCK. There is a little thing I want to recommend to you gentlemen. There is in my own city a market where the farmers bring all their produce. It is a market where practically all the produce from the surrounding country is sold. I have suggested that the trolley line put a spur in alongside of this market and at 8 o'clock in the morning start a car for West Albany, at 8.30 start a car for Rensselaer, at 9 o'clock start a car for Kenwood, at 9.30 start a car for North Albany, at 10 o'clock start a car for Pine Hill, and so on. The reason I suggest this is that the housewife who purchased in that market would then know when she has her purchases made there will be facilities for her to step on a car with her basket and take it home. That gives her an opportunity to know when and how she can get home and the exact time she can have this railroad service. That is the same thing you want, practically, in your railroad facilities on a wholesale plan.

Mr. BUTTERWORTH. We can distribute this stuff fast enough from the platforms if we can get at it and move it without being blocked; we can unload the cars if they are placed where we can get at them and we have a fair show. It would be a revelation to you gentlemen if you were to go out to West Philadelphia Market House some morning when there are, say, 40 or 50 cars of strawberries or peaches unloaded in No. 3 depot. The market opens at 5.30 a. m. and by 6.30 or 6.45 the platform will be clean. We can do this, because the railroad permits us to regulate the team traffic. We have a local trade organization of receivers, and their representative handles the traffic and they make the rules. We had a tough time getting the railroad to let us do it our way, but they came to it finally, and it makes a wonderful difference in the handling of the stuff; but if they were to attempt some morning to unload 100 cars of stuff in that same depot, all piled up close together with aisleways between not big enough to work a hand truck through, it would be an entirely different story, and you would see an awful mess. We can move the stuff quickly if we have anything like a fair show.

Representative TEN EYCK. Do you do any shipping by water?

Mr. BUTTERWORTH. Yes; there is quite a little shipping down to Wilmington and Chester and up to Trenton, but not as much as there was in the old days before the development of the motor truck. Now the trucks can handle the traffic so much quicker.

The CHAIRMAN. If there is nothing further, Mr. Butterworth, we are very much obliged to you for your statement.

The commission will stand adjourned, so far as the open hearings are concerned, until to-morrow morning at 11 o'clock.

(Whereupon, at 4 o'clock p. m., the commission adjourned to meet on Thursday, August 18, 1921, at 11 o'clock a. m.)

AGRICULTURAL INQUIRY.

THURSDAY, AUGUST 18, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met, pursuant to adjournment taken on yesterday, at 11 o'clock a. m., in room 70, the Capitol, Representative Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. The commission will hear this morning Hon. John C. Ketcham, Representative from the Fourth Michigan district.

Mr. Ketcham, will you please give your full name and address to the reporter, and then proceed with your statement?

STATEMENT OF HON. JOHN C. KETCHAM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN.

Mr. KETCHAM. Mr. Chairman, my name is John C. Ketcham. I am a Member of Congress from the Fourth Michigan district, and lecturer of the National Grange.

Now, Mr. Chairman and gentlemen of the commission, I first would like to inquire as to the limits of your patience. I want to accommodate myself exactly to your wishes as to time. If there are any particular things that you would like to have me speak about, I would like to do that; or would you like me to proceed in the regular way with what I had planned to present?

The CHAIRMAN. I think probably we will get more if you will proceed in your own way.

Mr. KETCHAM. There are some limitations, as to time, I suppose?

The CHAIRMAN. We would like to have you conclude about 12 o'clock, if you can, or shortly thereafter.

Mr. KETCHAM. Is anybody else to be heard?

The CHAIRMAN. Not this forenoon.

Mr. KETCHAM. That will give me an abundance of time.

May I say, Mr. Chairman and gentlemen, by way of introduction, that I believe there is no piece of work that has been undertaken by Congress in recent years that will be watched with greater anxiety and with more hopeful anticipation and, I may say, with greater expectation, than the work of this commission, especially by those of us who have been working on various angles of this country-life problem for the last 25 or 30 years.

And I also want to say in that connection that I greatly appreciate the courtesy of the commission in permitting me to present a few ideas I have on various phases of this problem.

Coming directly to what I want to say, I desire to present a program for the improvement of these country-life conditions.

The first step in this program is, I believe, a clearer understanding of the agricultural situation and a keener appreciation of what it means to the whole country.

I regret, as I think all persons do who are interested in country-life problems, the neglect and sometimes open hostility against country life, against many of the people who live in the country, and against many proposals that seem to be for the advantage of farmers. This feeling is altogether too prevalent, and I think if the commission can perform no other service than to so set out in its report the real conditions as to correct this viewpoint and to have the people of this country understand and have a fuller appreciation of what agriculture means to all our people that you will have rendered a great service.

In the first place, as indicating how important agriculture is to the country as a whole, may I request your attention to the numerical ratio of the farmers to the rest of the people of the United States? The census reports which we are just reading are misleading on that point. Pick up the census reports and read the editorial comments in most of our papers upon country-life statistics, and you will get something like this: "51.4 per cent of our people live in the cities and 48.6 per cent live in the rural sections." Of course you know that those figures of 48.6 per cent for the rural sections are inclusive of all smaller cities and towns in the rural sections up to towns and cities of 2,500 inhabitants. Expressed in totals, the figures are 54,318,032 for the cities and 51,390,739 for the rural sections of the country. I think this commission in considering its report could perform a special service if one of its recommendations shall be to the Director of the Census that in future census enumerations the actual population engaged in the business of agriculture shall be included.

The CHAIRMAN. I think that statement has already been given out.

Mr. KETCHAM. I have never been able to get it, and the only way I have been able to secure what appears to me to be a fair statement of farm population is to take the number of farms, which are reported to be 6,449,242 and multiply by four and one-half, the very best available figures as to the average family that I could get. This result is not entirely accurate, but that puts the figures, in round numbers, instead of 51,000,000, as the census figures would have you believe, at 29,000,000 people on the farms, or 27 per cent of our total population, instead of 48.6 per cent. The point I make is that the ordinary reader gets an entirely wrong idea of the situation as it actually exists, and I think that should be corrected. In numerical terms the farm people, those actually engaged in the production of food, are 29,000,000 instead of 51,000,000, and the percentage is 27 per cent of the total instead of 48.6 per cent.

Representative TEN EYCK. Should we not, in addition to that, have the number of people who are engaged in transactions, purchases, and sales of agricultural products?

Mr. KETCHAM. Yes, sir.

Representative TEN EYCK. Then we will learn exactly how many people are making their living from these agricultural pursuits.

Mr. KETCHAM. Yes; that is correct.

The second point I desire to bring to your attention is that we ought to do something to convey to the country as a whole something of the financial strength of the farmers of our country. The recent figures of the census have been helpful along that line, and show that the wealth of the farms, including lands, buildings, live stock, implements, etc., is $77,000,000,000.

In this connection it might be interesting for the committee to have the statement made by Prof. Friday of the social income of the farmers of the United States in 1917.

The CHAIRMAN. We have had Prof. Friday before the commission.

Mr. KETCHAM. And those figures were given?

The CHAIRMAN. Yes.

Mr. KETCHAM. Then he undoubtedly stated that the income from farms in 1917 was $14,000,000,000 out of a total national income of $65,000,000,000, or 21 per cent, represented by agriculture.

In the third place, I call your attention to what I am pleased to term the "holding power" of the men and women who live on the land. This, to my mind, is one of the most vital features of my program, though not susceptible of very much statistical proof. By "holding power," I mean the security of the things we regard as vital in our civilization. This is tremendously important in the days through which we are passing.

I only want to give you one set of figures which may have been presented before. My general statement preceding this is that if America is to live, the number of home owners and landholders must be increased. The Banker-Farmer—a publication with which Mr. Funk is familiar—in 1920 published some startling figures, obtained as the result of a very careful survey made by competent authority. In 1910 the percentage of home owners in the whole United States, taking all classes of people in both city and country, was 40 per cent of our population, and 60 per cent of our population owned neither homes nor land. Of course, in the large centers of population the conditions were very much worse in this respect than in the open country and in the smaller towns and cities. A statement made in that connection was to the effect that in New York City the percentage of home owners is but 20; 80 per cent of the people of New York City do not own the places where they live.

Representative MILLS. Is that very significant when you consider the conditions in a city like New York and think that it is over half the population of the State?

Mr. KETCHAM. Only this, Mr. Mills, that it shows the condition in that city. I am not picking out New York, except as a striking illustration of the general situation. I want to mention two or three other cities to show what the tendency is. You may have had called to your attention the fact that in the most favorable city in the United States—that is, Seattle, Wash.—the proportion of home owners to the total population of the city is 50 per cent. Grand Rapids, Mich., is second highest, according to these same figures. The tendency in the cities is to own homes less and less. I have not the figures for 1920, but my guess is that those percentages will be increased.

I want now to call your attention, by way of contrast, to the fact that 61 per cent of the people in the country own and live upon the lands which they operate, and that 38 per cent—that is, alarming

enough—are tenant farmers and do not own the places where they live. I believe therefore that a vital need is a multiplication of home owners, in the cities, in the small country towns, and a multiplication of home ownership and land ownership in the open country. If we are going to have conditions remain permanent and abiding in this country, I am sure home and land ownership must have our attention.

I want to make now a fourth statement concerning the economic importance of agriculture, which has undoubtedly been presented before. It is concerning the purchasing power of the men and women on the farms. I am sorry that I am not able to give definite information on this all-important subject; I am sorry I do not have the actual figures. I do not know that any are available, but the statements generally made are that 35 per cent of the buying power of the United States is represented by the people on the farms. And the fact that we have deflation and depression as it now is, is largely, or, in a very considerable degree, attributable to the fact that deflation first came to agriculture and to the farming population, and that as a result the farmers are out of the buying market. I am convinced that this fact should have thoughtful consideration.

A final point in securing for agriculture a proper appreciation and understanding is that of presenting clearly the producing power of the farmer. I want to call to your minds what the chairman of the Ways and Means Committee said yesterday on the floor of the House, to bring this significant fact to your attention by way of contrast. Mr. Fordney said that our national debt is practically $13,000,000,000; $24,000,000,000 is the total. Deduct from that the $10,000,000,000 due us from foreign nations, and the $1,000,000,000 of debt before the war, and our war debt remains at practically $13,000,000,000. The farm products of one year, the new material that is created in one year by the farmers, would discharge that indebtedness of it could be so applied. That indicates something of the tremendous producing power of the men and women on the land. Therefore, to sum it all up, the welfare, prosperity, and progress of the men and women of rural America is the most vital and important economic fact in the Nation's life.

The CHAIRMAN. But, Mr. Ketcham, when you consider the proportion of that amount which is available for the payment of the public debt it is not very great.

Mr. KETCHAM. That is true, Mr. Chairman. I only stated that by way of comparison.

The second point in my discussion is this: Having first secured, what I hope we may secure, a clearer understanding of the agricultural situation and a keener appreciation of what it means to the country, the second point is to consider the things that need to be done to improve conditions.

Farm production must be put upon a business basis. That is the very first thing. In this connection I want to pay tribute to business and industry in this country and to say that agriculture is under great obligation to them for pointing the way to this much to be desired result. Take this table for instance (indicating committee room table). In its manufacture if we go to the place where it is made and ask the manager the factors of cost in it he will say that

the first cost in the manufacture of this table is the material out of which it is made; then the labor, which he has figured to a fine point; then the buildings, interest, taxes, and so on, making up that elusive thing that is just getting into the heads of the farmers, "overhead;" and, following that, the fact that all business and all industry is carried on for profit, and that is added. Those are the factors in it.

The CHAIRMAN. I suspect there is a very great overestimate of the actual knowledge that people engaged in manufacturing and selling industries have about costs.

Mr. KETCHAM. That may be true, but is it not also true that every business man recognizes that he is venturing upon uncharted seas if he does not make a careful estimate of his costs?

The CHAIRMAN. I think you would be surprised if you knew how many of them do not know what it is.

Mr. KETCHAM. If so, I might reverse the situation and say that agriculture is leading in the study of production costs, because the farmers are certainly becoming wide awake on this subject. They know that agriculture must be a proposition of more than just so much horsepower on the job. In the discussions of agriculture I have heard in recent years it has become really more of a question than the horsepower from the farmer's shoulders down. In the new day I assure you that farmers are learning and have learned and are putting into practice the fact that the part of a man's anatomy from his neck up must be put into agriculture if he is to succeed. That is the elusive thing known as "overhead." It is a mighty fine idea, and we are greatly indebted to business men for the discussions and the wide publicity they have given to it. In my opinion agriculture will never come into its own until it is organized and managed upon a more efficient business basis.

I want to present to the commission now what I believe to be one of the finest pieces of constructive work along this line that has been undertaken by any organization recently. I hold in my hand a report of a piece of work entitled "Cooperation in Farm Accounting," a piece of work done last year in Michigan by the Michigan State Grange in cooperation with the Michigan Agricultural College, its experts and farm accountants, and the United States Department of Agriculture. First, I want to outline to you in a rough way what these studies are.

I think the figures are exceedingly interesting as indicating how successful study and work in the cost of production may be carried out by actual farmers. I hold here studies in 13 farm enterprises in Michigan; they include corn, clover hay, wheat, timothy hay, alfalfa, dairying, corn for ensilage, sugar beets, beans, rye, potatoes, barley, and oats. And after a brief discussion, Mr. Chairman, I would like permission to include these studies in the record, if it seems advisable. I will tell you what they are. For instance, the report on corn covers 37 counties of Michigan, and 77 farms kept cost-accounting records on this crop. These studies cover 788 acres in 37 counties and from 77 farms, thus giving a fairly good average idea of the cost of production of corn in the State of Michigan. The studies are very brief, and I consider them very valuable material.

The CHAIRMAN. The studies may be incorporated in the record.

(The studies referred to are printed in full, as follows:)

Cooperation in Farm Accounting.

[Preliminary report. Michigan State Grange, Michigan Agricultural College, Experiment Station, and United States Department of Agriculture cooperating. By H. M. Eliot and F. T. Riddell. East Lansing, Mich., Dec., 1920.]

FOREWORD.

One year ago the Michigan State Grange entered into cooperation with the Michigan Agricultural College and the United States Department of Agriculture in the matter of securing data on the costs of farming and income of farms. By this cooperation it was proposed to discover the types of farming that are paying best in Michigan, and to furnish data which farmers may use in changing their farm business to a basis of greater profits. Under this plan the grange distributed 1,075 account books to their members.

These account books contain two parts. One part is for records only, and it was intended that the crop records would be kept by farmers and furnished to the college in time to be summarized and presented to the State grange at their meeting in December, 1920. The second part of the book was for a full year's record and was to be completed and summarized at the end of the full 12 months.

The following data is, therefore, a preliminary report upon the important crops of the State. It shows the yields and income from each crop, and it also shows the enterprise or special costs on each crop. The term "enterprise returns" means total yields in money less special costs. Figures on enterprise returns when used with proper consideration as to labor distribution will give a farmer the data necessary to determine the best paying combination of enterprises for his farm.

In using these enterprise figures and the labor distribution charts, it must be remembered that they are intended to assist farmers in managing their business and not to furnish a basis for price fixing. For if prices are to be fixed they should be fixed at a point that will include not only enterprise costs but overhead costs as well, plus a reasonable profit on the farm business as a whole.

Overhead costs will be computed at the end of the accounting year. They will include horse costs, equipment costs, labor hired by the year or by the season, and miscellaneous farm costs.

In addition to the crop data, figures are also given on dairy cattle.

Farm enterprise records, 1920.

AVERAGE ENTERPRISE RETURNS PER ACRE.

Enterprise.	Average enterprise costs per acre.	Average enterprise yields per acre.	Average enterprise returns per acre.
Corn for grain	$11.38	$42.79	$31.41
Wheat	14.47	32.99	18.52
Oats	13.89	27.34	13.45
Barley	16.31	26.73	10.42
Rye	12.10	24.75	12.65
Timothy hay	6.61	22.54	15.93
Clover hay	10.56	25.52	14.96
Alfalfa hay	9.36	75.90	66.54
Beans	15.96	32.09	16.13
Potatoes	50.73	91.61	40.88
Sugar beets	50.58	111.09	60.51
One dairy cow	153.91	196.27	42.36

Farm enterprise records, 1920—Continued.

AVERAGE YIELDS PER ACRE.

Enterprise.	Counties reporting.	Farms reporting.	Total number acres.	Average yield per acre.
Corn for grain	37	77	788	36.6 bushels.
Wheat	47	158	1,940	13.7 bushels.
Oats	42	135	1,700	42.7 bushels.
Barley	19	34	293	27 bushels.
Rye	31	61	814	13.8 bushels.
Timothy hay	48	241	1,665	1 ton.
Clover hay	48	219	2,489	1.2 ton.
Alfalfa hay	2	10	136	3.3 tons.
Beans	28	37	296	13 bushels.
Potatoes	46	87	250	105.3 bushels
Sugar beets	3	25	209	10.8 tons.

Enterprise records on corn for grain, 1920.

[Counties reporting, 37; farms reporting, 77; total number of acres, 788.]

Average cost per acre:	
Seed, 4.8 quarts	$0.45
Fertilizer, 30 pounds	.57
Twine, 1.5 pounds	.21
Direct cost of shredding	1.21
Fuel for shredding	.14
Extra labor for shredding	.47
Board for shredding crew	.12
Cost of husking by hand	1.41
Extra labor hired during season	1.25
Rental value of land	5.55
Total	11.38
Average yield per acre:	
Corn, 36.62 bushels, at $0.86	31.46
Stover, 1.49 tons, at $7.60	11.33
Total	42.79
Average cost per acre	11.38
Average returns per acre (the amount received for the farmer's time and overhead)	31.41

Enterprise records on clover hay, 1920.

[Counties reporting, 48; farms reporting, 219; total number of acres, 2,489.]

Average cost per acre:	
Seed, 8.58 pounds	$3.95
Special labor, 0.187 days	.77
Rental value	5.78
Miscellaneous	.06
Total	10.56
Average yield per acre, clover hay, 1.16 tons, at $22	25.52
Average cost per acre	10.56
Average returns per acre (the amount received for the farmer's time and overhead)	14.96

Enterprise records on wheat, 1920.

[Counties reporting, 47; farms reporting, 158; total number of acres, 1,940.]

Average cost per acre:	
Seed, 1.69 bushels	$2.37
Fertilizer, 108 pounds	1.70
Seed treatment	.03
Twine	.27
Direct cost of thrashing	.97
Fuel	.28
Extra labor for thrashing	.74
Board for thrashing crew	.35
Extra labor hired during season	.46
Rent of land	7.30
Total	14.47
Average yield per acre:	
Wheat, 13.69 bushels, at $2.26	30.94
Straw	2.05
Total	32.99
Average cost per acre	14.47
Average returns per acre (the amount received for the farmer's time and overhead)	18.52

Enterprise records on timothy hay, 1920.

[Counties reporting, 48; farms reporting, 241; total number of acres, 1,665.]

Average cost per acre:	
Seed, 1.43 pounds	$0.20
Special labor, 0.17 day	.71
Rental value	5.65
Miscellaneous	.05
Total	6.61
Average yield per acre, timothy hay, 0.98 ton, at $23	22.54
Average cost per acre	6.61
Average returns per acre (the amount received for the farmer's time and overhead)	15.93

Enterprise records on alfalfa hay, 1920.

[Counties reporting, 2; farms reporting, 10; total number of acres, 136.]

Average cost per acre:	
Seed, 2.55 pounds	$0.87
Commercial fertilizer	.30
Special hired labor	.32
Rental value of land	7.81
Miscellaneous costs	.06
Total	9.36
Average yield per acre, alfalfa hay, 3.3 tons, at $23	75.90
Average cost per acre	9.36
Average returns per acre (the amount received for the farmer's time and overhead)	66.54

Enterprise records on dairy cattle.

[Number of farms, 75; number of dairy cows, 1,240.]

Average cost per cow per year:	
Home-grown grains, 690 pounds, at $35	$12.07
Commercial feeds, 1,178 pounds, at $60	35.34
Hay, 2,588 pounds, at $20	25.88
Other dry roughage, 825 pounds, at $10	4.12
Corn silage, 7,193 pounds, at $7	25.18
Other succulent feeds, 460 pounds, at $5	1.50
Pasture, 160 days, at $0.06	9.60
Bedding, 919 pounds, at $6	2.76
Interest, taxes, insurance, and depreciation on cattle, $114.50, at 14.6 per cent	16.72
Interest, taxes, insurance, and depreciation on buildings, $135, at 10 per cent	13.50
Taxes, interest, and depreciation on equipment	2.56
Veterinary services and drugs	1.02
Miscellaneous costs	3.66
Total	153.91
Average yield per cow:	
Milk, 7,211 pounds, at $2.50 per 100 pounds (at farm)	180.27
Manure, 8 tons, at $2	16.00
Total	196.27
Average cost per cow per year	153.91
Average returns per cow (the amount received for the farmer's time and overhead)	42.36

Enterprise record on corn for silage, 1920.

[Counties reporting, 52; farms reporting, 206; total number of acres, 1,876.]

Average cost per acre:	
Seed	$0.74
Fertilizer	1.85
Twine	.50
Cost of silo filling	3.83
Cost of fuel for filling silo	.62
Cost of board for crew filling silos	1.08
Extra labor hired during season	1.44
Rental value of land	7.58
Total	17.64
Average yield per acre:	
Silage, 6.32 tons, at $6.57	41.52
Corn left in field, 0.9 bushel, at $0.80	.72
Total	42.24
Average cost per acre	17.64
Average returns per acre (the amount received for the farmer's time and overhead)	24.60

Enterprise records on sugar beets, 1920.

[Counties reporting, 3; farms reporting, 25; total number of acres, 209.]

Average cost per acre:	
Contract labor	$26.71
Seed	3.73
Commercial fertilizer	1.86
Rental value of land	18.28
Total	50.58

Average yield per acre:	
Beets, 10.802 tons, at $10	108.02
Beet tops	3.07
Total	111.09
Average yield per acre	50.58
Average returns per acre (the amount received for the farmer's time and overhead)	60.51

Enterprise records on beans, 1920.

[Counties reporting, 28; farms reporting, 37; total number of acres, 296.]

Average cost per acre:	
Seed, 0.74 bushel, at $4.38	$3.24
Commercial fertilizer	.41
Direct cost of threshing	2.21
Extra labor for threshing	.98
Board for threshing crew	.51
Fuel for threshing	.38
Special labor hired during season	1.86
Extra horse labor hired	.09
Rental value of land	6.28
Total	15.96
Average yields per acre, beans, 12.99 bushels, at $2.47 (net)	32.09
Average cost per acre	15.90
Average returns per acre (the amount received for the farmer's time and overhead)	16.13
Average pick per bushel, 2.2 pounds, at $0.093	.21

Enterprise records on rye, 1920.

[Counties reporting, 31; farms reporting, 61; total number of acres, 814.]

Average cost per acre:	
Seed, 1.2 bushels	$1.88
Fertilizer, 16 pounds	.31
Seed treatment	
Twine	.22
Direct cost of threshing	1.11
Fuel	.26
Extra labor for threshing	.71
Board for threshing crew	.33
Extra labor hired during season	.44
Rent of land	6.84
Total	12.10
Average yields per acre:	
Rye, 13.83 bushels, at $1.62	22.40
Straw	2.35
Total	24.75
Average cost per acre	12.10
Average returns per acre (the amount received for the farmer's time and overhead)	12.65

Enterprise records on potatoes, 1920.

[Counties reporting, 46; farms reporting, 87; total number of acres, 250.]

Average cost per acre:	
Seed, 9.22 bushels, at $3.29	$30.33
Fertilizer, 132 pounds	2.91
Seed treatment	.43
Poison	1.43
Special labor	10.24
Rental value of land	5.39
Total	50.73
Average yield per acre:	
Potatoes, 105.3 bushels, at $0.87	91.61
Average cost per acre	50.73
Average returns per acre (the amount received for the farmer's time and overhead)	40.88

Enterprise records on barley, 1920.

[Counties reporting, 19; farms reporting, 34; total number of acres, 293.]

Average cost per acre:	
Seed, 1.77 bushels	$2.93
Fertilizer, 80 pounds	1.43
Seed treatment	.04
Twine	.36
Direct cost of threshing	1.68
Fuel	.34
Extra labor for threshing	.93
Board for threshing crew	.42
Extra labor hired during season	.48
Rent of land	7.70
Total	16.31
Average yields per acre:	
Barley, 27 bushels, at $0.92	24.84
Straw	1.89
Total	26.73
Average cost per acre	16.31
Average returns per acre (the amount received for the farmer's time and overhead)	10.42

Enterprise records on oats, 1920.

[Counties reporting, 42; farms reporting, 135; total number of acres, 1,700.]

Average cost per acre:	
Seed, 1.98 bushels	$1.27
Fertilizer, 42 pounds	.84
Seed treatment	.03
Twine	.40
Direct cost of thrashing	2.09
Fuel	.29
Extra labor for thrashing	.79
Board for thrashing crew	.37
Extra labor hired during season	.46
Rent of land	7.35
Total	13.89

Average yield per acre:

Oats, 42.72 bushels, at $0.55	23.50
Straw	3.84
Total	27.34
Average cost per acre	13.89
Average return per acre (the amount received for the farmer's time and overhead)	13.45

The CHAIRMAN. I would like to say in connection with the studies that my feeling is that most of the cost of production studies that have been carried on on the farm have been undertaken from an entirely wrong angle. They have been undertaken on the basis of, or attempt to ascertain, the cost of production of a bushel of wheat, or a bushel of corn; that is not the method of ascertaining the cost of production that has been undertaken in industry generally. And I have a notion that the cost of production studies on farms, if they are to be of any value, must be taken on the basis of the cost per unit, determining what is the most approved method of farming: and that can not be done by taking the cost of a bushel of wheat, or a bushel of corn on different farms, operating under different policies and under different ideas of management. The object of finding out the cost is not primarily to find out what it cost to make a given product, but it is to find out where the leaks or errors in management occur with reference to the entire plant, and unless the studies are made on the basis of ascertaining that fact, one will not get very far with this kind of matter.

Mr. KETCHAM. I think your statement is very fine, Mr. Chairman, and I agree with you. May I submit to you that these studies do not take it upon the basis of bushels, but upon the acre unit, and, therefore, I think are profitable, under those conditions. I think that is what you are driving at; if we are going to do anything that is valuable generally in crop studies, it must not be done with reference to price fixing—although I do maintain that that is valuable—but also that it shall provide a basis of sound practice in planning proper rotations and in selecting most advantageous crops for various localities.

The CHAIRMAN. We are very glad to have it in the record.

Mr. KETCHAM. In that connection, may I say that I have taken a typical 80-acre farm—that being about our average farm in Michigan—and, based upon those studies, I have taken, for instance, a farm with certain of those units and have divided it into 10-acre tracts, as follows: Ten acres wood lot; 10 acres for buildings, lanes, orchards, garden, and miscellaneous; 10 acres for wheat; 10 acres for pasture; 10 acres for clover; 10 acres for corn; 10 acres for oats; 10 acres for beans, making eight 10-acre tracts, and I have figured 10 cows to be kept upon the farm. While that would be a pretty heavy year's work, I have worked out the income from such a farm upon the returns as given in these cost-of-production studies. You will be interested merely in the total as we are passing. The total of it is $1,474.30, without any deductions for overhead. That $1,474.30 represents, then, the overhead and also what the farmer would be paid for his ability as a supervisor and his work as well.

The CHAIRMAN. Has the interest on the investment been taken out?

Mr. KETCHAM. The interest on the investment has been deducted upon the acreage that is not in crop, but rental has been charged on

the acreage that is cropped, and I thought it not fair to charge any interest where you charge rental. I will say that in Michigan we feel that we have worked out some pretty careful overhead charges; and you might be interested to know that the overhead on this particular farm would be $779, leaving $695.30 for the farmer to pay for labor he himself performed, and also for his managerial ability. May I say again that on this enterprise he receives a return of $695.30 for the investment of his life and for his managerial ability; and in my opinion there must come a revision in this matter if men are going to be asked to invest their lives on the farms.

The CHAIRMAN. Has any account been taken there of the living which the farmer got from the farm for himself?

Mr. KETCHAM. No; nor is there any account taken of the work his wife does or that his children do. I thought one would offset the other.

Senator LENROOT. Would that be the case?

Mr. KETCHAM. I think that would be about the case. I think these figures are significant. Would you not so regard them?

Senator LENROOT. What goes into the overhead?

Mr. KETCHAM. Interest on the untilled land and the buildings, figured at $270.

Senator LENROOT. Did you take the inventory at the beginning of the year of the value of the land?

Mr. KETCHAM. Yes, sir.

Senator LENROOT. And do you make any deduction if there has been a decrease in value?

Mr. KETCHAM. I figured the value of the land at $125 an acre.

Senator LENROOT. Flat?

Mr. KETCHAM. Yes, sir.

Senator LENROOT. That is a flat price per acre?

Mr. KETCHAM. Yes, sir.

Senator LENROOT. What is the fact as to the increases in value of land in a period of years?

Mr. KETCHAM. Over a period of 10 years, not taking into account the war conditions, I dare say an increase of 25 per cent would fairly represent our conditions.

Senator LENROOT. Would that not be considered when you are charging interest on the land?

Mr. KETCHAM. Yes, sir.

Senator LENROOT. But you have not done so?

Mr. KETCHAM. I have taken $125 per acre as representing the value of the land at the time this study was made.

Senator LENROOT. But if you are charging interest and your land has increased during the year, that offsets the increase, does it not?

Mr. KETCHAM. Yes; but we have not had the great increases there have been in some places.

Senator LENROOT. No; but generally, does not the increase in the value of the land equal the interest on the land?

Mr. KETCHAM. I think over a period of a few years that may be true.

Senator LENROOT. What was the value of the land last year?

Mr. KETCHAM. I should say $140 per acre.

Senator LENROOT. What was it 20 years ago?

Mr. KETCHAM. I should say $60. In addition to that—you asked for these items, Senator Lenroot?

Senator LENROOT. Yes.

Mr. KETCHAM. Depreciation on teams and tools, total value of $1,200, and depreciation figured at 10 per cent, $120; interest on teams and tools, and the like of that, figured at 5 per cent on $1,200, is $60. Depreciation on buildings and fences figured at 5 per cent, $125. Taxes figured at the rate of 1½ per cent—that is surely conservative—$168. The interest on a working capital of $600, calculated at 6 per cent, would be $36, or a total of $779 for overhead. That does not allow any extra compensation for the man's managerial ability.

Now, the third item in my program for the improvement of agriculture would be improved distribution. And, being conscious of the fact that much has been presented to you in this connection, I am not going to dwell upon it, except to make this general remark, that I believe it is the biggest economic problem before the American people to-day; the biggest economic problem, taking into consideration both producers and consumers. It has been widely stated—and I have never seen it very sharply disputed—that to-day our ratio of cost of distribution is from 35 to 40 cents of the consumer's dollar to the producer; and various agencies, intermediary between the producer and the consumer, take up the other 65 cents. In contrast to that I submit a statement which is, of course, just as extreme the other way, in Denmark, where 90 cents of the consumer's dollar goes to the producer.

We could not hope to reach that for some time in this country, but I do submit that in this question of proper distribution lies the opportunity for the greatest bit of constructive work that is now before the American people. If you state that in terms of the dollars involved, the problem becomes one of unusual significance. Even last year's statement shows farm crops sold at $9,000,000,000. Represent this sum by 35 per cent and see where your 100 per cent that the consumers pay really reaches.

Now, what is the difficulty? I think it is in the common definition of business. We have allowed the wrong definition of business to develop in this country. I believe in the near future we shall have to write a new definition of business. Business is not charging all the traffic will bear and putting artificial obstructions into the channels of trade. I believe the definition of business is to give a man good pay for services rendered, and a fair return on the capital he invests and the ability he puts into it. The most dangerous thing I see in this business of distribution is the right that certain groups of individuals have taken to themselves, apparently, to stand in the way of proper distribution, and with vast aggregations of capital at their command to use storage, transportation conveniences, and sometimes legislative advantage, all for the purpose of assuming control of distribution, and putting prices down to the one who does the producing and up to the one who does the consuming. Gentlemen of the commission, this is America's greatest problem. I believe it must be remedied if we endure.

Now, I live out where the folks are. I do not know so much about matters here; I am green and new here; you would know that without my stating it at all, but I do claim to be in close contact

with the folks at the other end of the line. I know what they are thinking about and what they feel on these matters. I tell you, if this commission can point the way to relief in this matter of distribution and show the country how more economical distribution of products from the producer to the consumer can be accomplished, your names will go down in history as real statesmen.

Senator LENROOT. This commission is doing its very best to get the facts as to what proportion of the price is paid to those who render no service in connection with a product. General statements do not help the commission in arriving at an answer to that question.

Mr. KETCHAM. I appreciate that point, but inasmuch as in the beginning of my remarks on this subject I made the statement that I took it for granted that many men who had very definite experience in certain specific lines had offered their testimony to this commission bearing upon the facts that you desire to reach in your particular study that I did not want to trespass——

Senator LENROOT (interposing). Excepting that you are assuming that the larger percentage, perhaps, of the difference between what the producer gets and what the consumer pays is in the toll between and goes to these people who render no service.

Mr. KETCHAM. I am glad you called that to my attention, Senator, and I want specifically to say that that is not my attitude. I have never made it a practice to go out and without discrimination attempt to slaughter with verbiage men who are engaged in the business of distribution.

If the commission is at all interested in my attitude in that matter, here it is: I believe that the man who is engaged in the business of distribution, whether he be a man who makes that his business or whether he is a part of program of cooperative marketing or whatever his legitimate position, my theory is that he should be well paid; he should have a return for his money. But I declare to you that I do not believe that our present system of distribution has been built up with the idea of eliminating waste. But I am not here for the purpose of piling up charges against the men engaged in distribution.

The CHAIRMAN. Would it not seem fair to assume that if somebody could find a way by which waste and inefficiency and all the other elements of unnecessary cost between the producer and the consumer could be eliminated that that fellow would find a very considerable profit, and sufficient profit to justify him in adopting that method and giving the consumer and producer both some benefit of it?

Mr. KETCHAM. The answer to that lies, Mr. Chairman, in my opinion, in the fact that to-day the methods by which this waste may be eliminated and the attempts to make it possible for organizations to function in a national way are being fought, and fought very bitterly, by the people who are the beneficiaries of the present plan of distribution. I believe most heartily that in it are at least the beginnings of the solution of this problem. I believe in the theory of the men upon the land being allowed the widest possible latitude to work out without hindrance their plans of cooperative marketing, being confident not only of the fairness of their request but also being convinced, after study, that there will be a very considerable measure of relief afforded to the producing end by such plans; I am also think-

ing that when the consumers on the other end of the line know of the success that has been made under the cooperative methods up to the point of transfer to those who serve them they will likewise begin to think along those lines, and will do what they can to assist.

I am reminded of a general statement that was made by a president of one of the western railroads some years ago—about 10 years ago—this may not be modern enough to be of much value. I have forgotten now just who he was or what line he was with. But he made this statement less than 10 years ago. It was Mr. Yoakum, I believe, of the Rock Island system.

The CHAIRMAN. The Frisco system.

Mr. KETCHAM. Of the Frisco system. He made this statement in Kansas less than 10 years ago, that in studying 50 products of agriculture, the division was about this way: Thirty-seven cents into the pocket of the producer, 47 cents to the agencies of distribution—the various agencies of distribution; 12 per cent wasted in the process of distribution—not by the producer or consumer, but in the process of distribution—and the other 4 per cent for transportation. That was before our modern freight rates.

The CHAIRMAN. There is a very general impression that that general division has considerably changed in the last few years.

Mr. KETCHAM. It has.

The CHAIRMAN. But, so far as any figures we have been able to gather indicate, the percentages have not changed very much. That is to say, if you divide the percentages on the same basis to-day, 1921, as you did in 1913, you will probably find that, with the exception of transportation, the percentages that go to the various factors or links in the chain of distribution have not been changed very much, but that each cost, and consequently each percentage of profit which is charged upon every element of cost, whether it is transportation or cartage or investment or overhead, or whatever it may be, has relatively increased so that your picture is substantially the same to-day as it was in 1913. You can not pick out any particular place and say, "Here is where all of the trouble lies; if you just correct this everything will be lovely."

Mr. KETCHAM. But going back to the 40 per cent for distribution, I am utterly unable to conceive of a system of distribution where those engaged in the business—taking out waste and taking out transportation charges—where they are entitled to 33⅓ per cent more than the people who have their lives and their money tied up in the business of producing, and that is what those figures indicate. And I am perfectly well aware, Mr. Chairman, that all this 47 cents to agencies of distribution can not be eliminated, and anybody who makes that statement is indulging in flights of imagination.

Representative FUNK. Is this your position, Mr. Ketcham, that that relationship is not true in any other business and in any other industry except agriculture?

Mr. KETCHAM. Yes, sir.

Representative FUNK. That the cost of getting products from the producer to the consumer is so high, relatively only, in agriculture and not in any other industry or manufacturing business?

Mr. KETCHAM. That is the fact. And then the farmer faces another discouraging fact, in that he simply produces, without knowledge of the return that he may expect for his product. And while

naturally the great laws of supply and demand establish the prices, when they are to regulate the price a year hence it makes it a great element of uncertainty when a man puts his crop in the ground. However, I believe some measure of this uncertainty will be removed when cooperative marketing plans become well developed and the farmer has some voice in making his price, based upon reasonable production cost and profit.

Representative FUNK. For example, Mr. Ketcham, last year the oats on my farm averaged 77 bushels per acre, and this year the yield was only 25 bushels per acre, which made a great difference in the gross return.

Mr. KETCHAM. Of course, this wide divergence in yield could not have been anticipated.

Representative FUNK. No.

Mr. KETCHAM. That is one of the chances you take. I believe that will be cured in a measure by cooperative marketing. And to the extent that men of capital and favorable financial situation, and control of transportation, and possibly rather unusual influence in legislative matters, are able to prevent agriculture from trying out this plan, just to that extent, I believe, we are piling up this bill of expense that has to come out of the pockets of the ultimate consumers and as well as those of the producers to some extent.

Senator LENROOT. Mr. Ketcham, is not the cost of marketing and distribution to have the goods reach the consumer a work to the benefit and advantage of the producer?

Mr. KETCHAM. You are right, but where does the responsibility lie; does it lie in the hands of the producer, and is the ultimate consumer to stand by and see that conditions are bad and rotten and not do something? He should do something, and not simply stand by and say, "Why don't you producers do something?" Instead of simply bringing this problem in and putting it up to us, my theory is that the American farmer, by cooperative marketing, should be given the largest measure of latitude in getting his product over, say, half way. I believe that through cooperative organizations, the responsibility would likewise be up to the consumers and that by such means this tremendous problem that is making for restlessness in this country would be solved. It must be solved. I do not think the responsibility is up to the farmer to solve it for the ultimate consumer, if that is what you are trying to get at.

Senator LENROOT. Then you would say, under present economic conditions, the only solution would be to increase to the consumer the price of farm products, to compel him to do his part; that would follow under present methods of distribution, would it not?

Mr. KETCHAM. That is a pretty severe punishment to mete out to consumers.

Senator LENROOT. Is that not true; in other words, you take the same percentage of toll for distribution, both for services rendered and that may not be rendered; the more the farmer gets, the more the consumer pays?

Mr. KETCHAM. I hate to lay that onto the producer.

Senator LENROOT. Is it not true, if the farmer is to get a price that he does not get—that he is not getting to-day—and continuing the present methods of distribution, the prices must be increased?

Mr. KETCHAM. Yes; and I think the country will soon awaken to the real conditions. As I said a moment ago, you can not eliminate all of this. You can not start out on any wild program. My theory is that the saving in distribution should be divided between the producer and the consumer.

Senator LENROOT. I wanted to follow that just a step further: The higher the prices to the consumer, the less the consumption?

Mr. KETCHAM. Yes, sir.

Senator LENROOT. Then you would not say that the producer has no responsibility from his own selfish interest?

Mr. KETCHAM. No; but my thought was that he should not carry the whole responsibility.

The CHAIRMAN. If the producer had complete control and could fix the price, the price which he would naturally fix would be the higher price at which he could sell?

Mr. KETCHAM. Yes. But I must hasten on; I have two other points that I want to touch on briefly.

Senator LENROOT. One further question: Assuming that agriculture could be the subject of monopoly—not saying that it could be—do you think that monopoly should be permitted by law?

Mr. KETCHAM. No, sir.

Senator LENROOT. That is all.

Mr. KETCHAM. That is the point. I have always maintained that in all these matters that fine old phrase of the Declaration of Independence should come into our thinking and should actuate our motives. In all these matters there must be "a decent regard for the opinions of mankind"; and you will never get very far with any economic program that does violence to that sentiment. Fairness and justice to all concerned has been my theory.

Senator LENROOT. Do you think that we should make monopoly subject to criminal prosecution and punishment to some people and not to others?

Mr. KETCHAM. No, sir. I suppose you are now referring to some proposed legislation that is under consideration.

Senator LENROOT. Yes.

Mr. KETCHAM. Do you want my opinion directly expressed as to the merits of that?

Senator LENROOT. I would be glad to have it. It is troubling some of us a great deal.

Mr. KETCHAM. I have felt that the farm people of the United States should ask for themselves exactly the same privileges and benefits that are to-day given to other groups of folks who organize for their own benefit, protection, and welfare. I go that far, and no further.

Senator LENROOT. That is sound, certainly.

Mr. KETCHAM. I go that far and no further.

Representative FUNK. You do not pretend to think that by any legislation that can be enacted by Congress the farmers could create a monopoly for the control of farm produce?

Mr. KETCHAM. I do not.

Just two words on the subject of credits, which is the fourth item in my program for the improvement of agricultural conditions. My belief is that the Federal Reserve Board in some way should be introduced to agriculture—should be made conscious of the fact that there

is a business of agriculture in this country. Now, I do not want to launch out on that, because I have some pretty strong feelings along that line. I am not charging now anything against the Federal Reserve Board. However, I have a deep-seated belief, gentlemen, that in some way it has not been able to apprehend clearly its proper relationship to the business of agriculture. Had they done so, I do not believe that the deflation process would have been started last year when it was started.

The CHAIRMAN. I think you will have to go back of the Federal Reserve Board to the people who are responsible for the Federal reserve act if you go into that subject.

Mr. KETCHAM. My only thought in that connection is this, that I sincerely hope that when some future appointments are considered that upon that Federal Reserve Board will be placed some man who has at least the background of experience and the natural sympathy and full appreciation and understanding of the needs of agriculture. I hope a man like that will go on the Federal Reserve Board. That is all I ask.

The CHAIRMAN. That proceeds upon the presumption that in passing the Federal reserve act the Congress itself fully recognized the requirements of agriculture, and so drew the Federal reserve act and so set up the Federal reserve system that it was possible to meet these needs through the system.

Mr. KETCHAM. But they left the administration to the board, did they not?

The CHAIRMAN. The administration could not go further than the act itself went.

Mr. KETCHAM. Yes; but could they go as far as the act itself permitted?

The CHAIRMAN. Yes.

Mr. KETCHAM. The question is, Did they?

The CHAIRMAN. That is a question which we are undertaking to decide. I undertake to say, if you ask that question of me personally, on the basis of such figures as I have, they did.

Mr. KETCHAM. Well, if the chairman is convinced of that, his wide knowledge and information, of course, goes a good ways with me.

The CHAIRMAN. Now, I am referring, of course, merely to what was done in the matter of agricultural loans; I am not referring to the correctness of the general policy, interest rates, or deflation, or whatever you call it. So far as credit is concerned, I do not think it is possible to show there was any discrimination as against agriculture, as against any other industry.

Mr. KETCHAM. Has the chairman an opinion, and does he care to express it, or is he advised, when there was a deflation policy decided upon in which the Federal Reserve Board had some discretion, whether the time was at all considered; was not an arbitrary time set? If the chairman has an opinion upon that matter, I would be very pleased to hear it.

The CHAIRMAN. I do not think it would be desirable to express an opinion upon that matter in advance, but I would naturally guess that the action of the board was probably based upon the condition of the reserve, on the general credit situation, upon the resources which the banks of the Federal reserve system had at the time,

rather than upon a consideration of the effect of the policy upon the economic conditions of the country.

Mr. KETCHAM. Well, granted now that these larger considerations should have prevailed, I would rest my case, provided there was some voice on the Federal Reserve Board which could present the farm situation, one who had a vision and a clear enough view of the situation to have apprehended what would have been the disastrous results that did follow the starting of the process of deflation after high-priced seed, high-production costs of every kind had gone into the business of agriculture last year. When it came the time for marketing these crops the full process of deflation was on its way. and you well know what happened to agriculture; the inability of the farmer to market his crops at anything like cost of production. All these things certainly contributed to the business depression.

Representative MILLS. If you will read the testimony of Gov. Strong and Gov. Harding before this commission, I think you will find that their position is this—and, personally, I think that it is absolutely correct: In the course of one of these wild periods of speculation and rising prices there comes a point where the bubble is going to be pricked, and what you call deflation of prices will inevitably occur. Now, you have been discussing, just as a good many other people have discussed this matter before the commission, on the assumption that the Federal Reserve Board, by a position taken in May or June decided to start the process of deflation.

Personally, I do not think that any group of men, large or small, could have started that process. But they deny absolutely that they started the process. What they say is that to any intelligent business man or banker it became obvious along in the spring of 1920—and to some of them many months before that—that this process was about to begin inside of a comparatively short time, and that it was their duty as public officials to hoist the danger signal and send word to the various banks and bankers and business men throughout the country that in their judgment this process was to take place, and within a short time would take place, and they should be guided accordingly. All they claim they did was to take precautionary measures, in view of the inevitable—not that they contributed to the deflation, not that they caused it; it was inevitable—and all they did was to take measures to meet this great drop in prices that they foresaw was to occur. Now, there is a big difference between causing it and seeing it coming and taking measures and steps to meet it.

Mr. KETCHAM. Taking it for granted that your statement is correct, I do not attribute unworthy motives to these men. But it seems to me it was a most unfortunate time to promulgate this statement as they did, assuming that it was promulgated. The matter of a few months meant the difference between success and failure to the great farming interests. and the only thing I am complaining of is not that we did go into deflation—I am not arguing that at all—but, as I said, if there had been some one sitting at the table of that board who had a keen view and clear vision of the whole situation he could have seen this deflation coming earlier in the year, before crop-planting time, and could have shown his associates the effect of deflation at that time on agriculture.

The CHAIRMAN. Nobody could tell when this thing would start and reach its maximum effect. Many people thought this deflation

would come immediately after the war, and for a time it looked as if they were right, but it did not. Nobody could tell whether that maximum effect would be reached in May, 1920, or in December, 1921, or December, 1920, or May, 1921. I think that everybody was rather alarmed and surprised at the rapidity with which the price drop came, once it began, because it was a long time starting.

Representative MILLS. If you study the matter a little further you will find that it came not only in the United States, but you will find it started many months before it hit us. You will find a similar deflation took place in Japan in March and April of that year. That was taking place in every country in the world, and that can not be attributed to the Federal Reserve Board.

Mr. KETCHAM. I think you are really turning your argument in my favor, if you will permit me, Mr. Mills. The Federal Reserve Board, granting that they simply passed on the word, everybody must be deeply conscious of the significance of such word passed in times of uncertainty, financially speaking.

Representative MILLS. But they were not uncertain. You think back a year ago, and there was nothing uncertain in May. Everybody was buying and thinking that the rise in prices and the boom was going to last for all time. It was only the people who were studying the situation that really saw it coming.

Mr. KETCHAM. May I ask you this question—while I am testifying, if I may ask you this question: Do you believe that the Federal Reserve Board, if it had not passed out this word or taken some sort of action somewhere, that the deflation would have been so disastrous to agriculture and agricultural interests?

Representative MILLS. All the Federal Reserve Board did was to approve the raising of the discount rates in March, 1920. And they issued a statement in May, 1920. But, mind you, they approved the raising of the discount rates in March, 1920. Personally, I do not think that advanced the period of deflation one hour. But I want to say this: If they had not raised the discount rate, if some restrictive measures had not been taken, I believe the crash would have been ten or twenty times worse.

Representative TEN EYCK. At that time or later?

Representative MILLS. At that time or later?

Mr. KETCHAM. Just one other point. I know this has been covered, and I will not give any time to it, but I do want to give my hearty approval to what I know the commission is giving consideration, namely, some form of short-time credit that will be particularly suited to the methods of agriculture, and from Mr. Mill's remarks on the floor of the House yesterday I take it that plans are very well advanced. I shall not dwell upon it. As I said in the beginning, there should be a clearer understanding of the agricultural situation and a keener appreciation of what it needs, and if that is given in the form of credit specially suited to agriculture and if in the business of banking there will be something to meet the turnover needs of the farmer, which are yearly instead of every 90 days, such action will be an evidence of a fuller understanding of the needs of agriculture.

Representative MILLS. That is the fault of the system, you understand, and not the fault of the men.

Mr. KETCHAM. Yes, sir.

Representative MILLS. They could not have used the funds of the Federal reserve banks for the purpose of financing the farmers for 12 months.

Mr. KETCHAM. No, sir; I understand that; and that is the reason why I give my hearty approval to these measures that you are considering.

The last point I want to make is that in all our program for agriculture—and I am going to repeat what I said before—so far as I know the heart and mind of the American farmer all he is asking for is fairness and justice. I believe I speak the heart and mind of the American farmer when I say that he is convinced that anything that savors of class legislation, so called, is something which he fundamentally and forever and everlastingly opposes. I do not think you need go very far for a conspicuous illustration of how it is disastrous. It is possible to drive through legislation to favor certain classes and certain people, but if that legislation is not grounded in fairness and justice to all the people it is very liable to turn around, as some legislation of recent years is now turning around, to the disadvantage of the very class and the very people who secured its enactment. Some day I hope on the floor of the House to pay my respects to those who are everlastingly talking about class legislation when anything is proposed that is beneficial to agriculture. I do not want to call any names or to comment further than to say that I sincerely trust that this statement may be taken as the expression of the views of a very considerable portion of the men of the country engaged in the business of agriculture; that when the legislation is enacted for the benefit of agriculture it ought to be for the benefit of agriculture only so far as it will be of benefit to all the people.

Now, may I close by just simply calling to your attention what I regard as the most significant thing in connection with this whole agricultural inquiry and investigation? I like to hold it out before this commission as representing the best thought that is being given to this matter in these days. I invite your attention to the spirit of the American farmer when it comes down to the things that are fundamental. I am not going into his war record; I am not going into his subscription for bonds; I am not going into his contribution for philanthropic purposes; I am not going into the number of boys he gave to the service. I think the figures are, roughly speaking, about 35 per cent of the men who were called to the colors came from the farms. But I do want to say to the everlasting credit of the American farmer that when he was 2,000,000 men short, these young men having answered the call to the colors, when they were thus handicapped, in answer to the call of the President of the United States for their very best to be given, that in the year 1918 they planted and raised 130 per cent of the normal crop and acreage to feed the civil population at home and to keep our army on the western front. And that should be set down to the credit of the farmer, and as an indication of his spirit. And in 1919, the farmer again raised enormous crops in answer to appeals of the needs of the people.

Again, in 1920, he took a drop of approximately 40 per cent, after having produced 8 per cent more than in 1919; in 1920 the acreage was 8 per cent more than the year before, but when it came to the time of market he received 40 per cent less.

In the face of these experiences what might reasonably be expected of him in 1921? He would lie down on his job. I think the figures for 1921 indicate that the farmer is strictly on the job and is producing a practically normal acreage in raising food for the world, and in every way trying to do his part. It therefore seems to me that the fine spirit that he bears toward all other classes of people everywhere should weigh in his favor when we are shaping a program of legislation.

Mr. Chairman and gentlemen of the commission, I thank you very much for giving me this hearing, which has been much longer extended than I expected.

The CHAIRMAN. We are very much obliged to you, Mr. Ketcham, for your statement. If there is nothing further, the committee will stand on recess until 2 o'clock this afternoon.

(Therefore, at 12 o'clock noon, the commission stood on recess until 2 o'clock p. m. of the same day.)

AFTER RECESS.

The commission met at 2 o'clock pursuant to the taking of recess.

The CHAIRMAN. The commission will resume its hearings, and will be glad to hear from Mr. Powell.

STATEMENT OF MR. W. W. POWELL, SECRETARY OF THE AMERICAN ASSOCIATION OF JOINT-STOCK LAND BANKS, 1422 F STREET NW., WASHINGTON, D. C.

Mr. POWELL. Our thought in asking to be heard, as I explained this morning, is that many Members of the Congress, almost every Representative and every Senator from an agricultural State, is asked by somebody to introduce a bill to make some sort of amendment to the farm loan act. It would be very strange indeed if all such amendments were conceived with proper consideration for the fundamental principles which are involved. There were some 40 or 45 bills introduced in the last session to amend the farm loan act. Of course, not all of them passed, but enough of them were given serious consideration to give anybody the shivers who has his money invested in this system. By this I mean that if some of the amendments which were offered had been enacted the basic principles of the law might easily have been vitiated.

There is one amendment which we as joint-stock land banks want to offer. That amendment is one to define or specify for just what purpose a joint-stock land bank may make loans. The language of the law limits the Federal land banks to agricultural purposes. Evidently it was the thought of those who conceived the law that the system should be operated solely for agricultural purposes. Yet in the struggle that preceded the authorization of joint-stock land banks these particular institutions were given exemption from certain limitations which did control in the case of the Federal land banks. The joint-stock banks were exempted from the application of two or three sections, the most important of which was that which had to do with the purpose for which a loan may be made.

When it came to the actual operation of the joint-stock banks the Farm Loan Board issued a ruling to the effect that it would not ap-

prove any issue of bonds on any loan that was not made for agricultural purposes. That ruling was perfectly right and proper.

The CHAIRMAN. Let me ask you right there: As I recall it the farm loan act is quite consistent as to the purposes for which loans may be made; and, in addition, specifies the percentage of the appraised value which can be loaned?

Mr. POWELL. Yes.

The CHAIRMAN. Does the limitation as to percentage of appraised value which can be loaned apply in the case of the joint-stock land banks?

Mr. POWELL. That limitation applies to the joint-stock land banks; yes. The joint-stock land banks have lived up to that religiously, accepting the order or ruling of the Farm Loan Board as having all the force of law. But criticism has been made upon the floor of Congress, has been made in farm papers, and has been generally circulated by the enemies of the farm land bank system, to the detriment of the entire system, that there is no limit as to the purposes for which these joint-stock land banks may make loans. Therefore we want to ask that the law be amended so as to make the same limitations which apply to the Federal land banks apply also to the joint-stock land banks in the matter of the purpose for which loans may be made. There never ought to have been any difference in the first place. It is not sufficient that it should rest with the Farm Loan Board. The personnel of the board might change and a new ruling might be made. But if it is put into the law then there can be no question about it.

I think that is the only amendment we have in mind that affects us financially or as financial institutions. There is another amendment, however, which, as friends of agriculture, we feel ought to be made. That is one increasing the amount which may be loaned under this act by the Federal land banks to a single farmer. The limit is now $10,000. There has been a very considerable demand that the maximum loan should be increased to $25,000. I think there is some doubt in the minds of some people who actually favor an increase of that limit as to whether this is the proper time to so amend the law. I would not quarrel with any of them about that, but eventually the increase should be made, and it should be made as soon as it is possible and practicable.

The CHAIRMAN. Let me ask you a question along that line so as to get before you my own notion in regard to it: It seems to me if it is assumed that bonds can be sold to meet all the requirements that would possibly come for farm loans through the system, that it might be desirable to increase the limit which might be loaned under those circumstances. But, assuming that you can not get all the money that would be required in order to make all the loans that people wanted; in other words, assuming that you are going to be limited in your funds—and, I take it, the theory of the farm loan act was to take care in large measure of the little fellow, the fellow who wanted to buy a farm and go on it and pay for it out of the earnings of the farm—I say, assuming that you may be or will be limited in the amount which you can get to loan, under such circumstances you would be doing more good with the money you have to loan if you spread it out a little thinner than if you were to increase the amounts loaned and consequently have to make fewer loans.

Mr. POWELL. I think that statement opens up the question splendidly for discussion. And I want to say that I think that is the viewpoint of the Farm Loan Board at this moment regarding the advisability of an immediate increase of the limit. I would not think of trying to speak for the board, but I believe that they favor an increase later on. I think that they are fully conscious of the fact that for a matter of 20 years American agriculture has been undergoing a great basic change, and that to-day that great economic change may be said to be complete.

The problem of land ownership, so far as this generation is concerned, is a very different problem from that which confronted the generation which has just passed and the generations of American farmers which preceded it. Then there was still some free land to be had. Before that free land had been the incentive. A man went out and conquered the wilderness, tamed 160 acres of land, and it was his. That was part of his compensation. But that opportunity has gone, and we have left now, to be taken over by the generation which has come on, the land which has already been brought under cultivation, which has already been improved, and which has already a greatly enhanced value by reason of increase in population. This now is high-priced land.

It does not seem extravagant to say that the average price of land in the better districts of the Middle West is about $200 an acre—Iowa, southern Minnesota, the southern part of Soutth Dakota, Illinois, and Indiana. I think $200 an acre would be considered the average price for land in those sections. I may be wrong in that statement, but Dr. L. C. Gray, economist in charge of land economics in the United States Department of Agriculture, in the Agricultural Yearbook for 1920, just now off the press, says:

> In the choicer sections of the corn belt and in the dairy regions of southern Wisconsin and Minnesota a farm of normal size represents a total investment of from $50,000 to $100,000. The investment in the better farms of the winter wheat and spring wheat belts ranges from $30,000 to $50,00. An apple orchard of normal size in western New York involves a capital of $25,000 to $30,000. In the cotton belt farms of average size operated by owners represent an investment of $5,000 to $15,000.

That is only offered to you by me as the testimony of a man who has given some study to this subject, in order to substantiate my contention that the average price of land in the better districts is around $200 an acre. But how are you going to get a man to buy a farm of 160 or 220 acres, which is the economic unit out in Iowa; how are you going to get a man to buy that kind of farm if he can not finance it? He has got to be somewhat of a capitalist if he finances it himself. The hired hand is not a capitalist. The tenant is a very small capitalist, if he has laid up anything at all. He is not in position to go and buy land at $200 an acre. Yet somebody has got to take over that land. That land has got to produce the commercial surplus. That matter has got to be taken care of. It must be made possible for the next generation to take over that land.

As Dr. Gray points out, many farms in the corn belt and the dairy sections have values greatly in excess of $200 an acre. Three hundred dollars per acre is not an unreasonable price in some of the more highly developed and advantageously located sections. And $500 an acre is not unheard of.

So, to-day this country has before it a very considerable and very real problem in financing the men of this and the next generation who are to take over and cultivate this high-priced land from which the passing generation is retiring and leaving to its sons and neighbors and hired men.

How shall the new owner be financed? Manifestly, he must have credit—not a niggardly and grudgingly administered credit, but ample and adequate credit.

We have made a beginning. We have sought to establish a new system, fostered by the Federal farm loan act. While we have written the law providing for the development of that system nothing is more certain than that it will require from 5 to 10 years in which to thoroughly establish in the practice of the Nation the new principles set forth in this law. This much is true and beyond question: We can not return to the days of free land. Neither can we return to the days of cheap land. Our problem, then, is defined.

Mr. Chairman, you mentioned the fact that you thought it was the idea in passing the farm loan act to take care of the little fellow. I think that was very likely the largest factor in the consideration of the measure, but it could not have been the only factor because your law does provide for larger loans. The record of the hearings held in 1914 by the Subcommittee on Banking and Currency of the Senate shows that Senator Norris introduced the first rural credits bill, and that the Norris bill had a limit of $2,000 as to the size of the loan that might be made. The subcommittee did not favorably consider that bill because those speaking in behalf of agriculture were so pronounced in opposition to it because of the low limit on loans. Then the first draft of the farm loan act was made. That first draft of the present law provided for a maximum loan of $5,000. Complaint was made also against that, and for the same reason. In the second draft the limit was increased to $10,000, and still complaint was made that the maximum was too low yet. The final draft contained a provision for the joint-stock land banks which might loan 15 per cent of their capital, or up to $37,500, to a single individual. So that Congress did step the maximum up from $2,000 to $37,500. The law as it was passed must stand as some evidence of the intent of Congress, and the present provision as to maximum loans was not arrived at suddenly, it was adopted after months of consideration; the limit was pushed up step by step in response to the demand of men actually engaged in farming and who expected to make use of the farm loan system. I mention this fact because there are 100 pages of that testimony in the hearings held before the old subcommittee, which shows this to have been the fact.

I assume that this commission is entirely familiar with the farm loan act, but I want to emphasize three or four things in connection with it that we think should be guarded and preserved.

Many students of this problem consider that, in passing the Federal farm loan act, the Sixty-third Congress builded better than it knew. The statement is warranted that most students of and many practical men dealing in land credits consider the Federal farm loan act a most excellent piece of legislation. The plan it provides is not an experiment. This law contains no new nostrums. It is based upon more than 100 years of human experience. True, that experience was acquired in European countries. But the principles evolved and

established in the experience of European agriculture have been adapted admirably and in a most practical way to the conditions of American farming.

Four years of operation under this law have indicated rather clearly the need for certain amendments—not amendments designed to eliminate or modify any of the fundamental principles, but amendments designed to preserve these principles and to make the benefits of this law available to all phases of agriculture and to all classes of farmers.

Before considering these amendments, a brief reference to the major principles involved in this new program for financing land ownership may be pardoned at this time because of the fact that there are so few men now in Congress who were in Washington at the time the farm loan act was passed, and because of the further fact that very few who were here at that time were deeply interested in or intimately informed as to the principles and provisions of that law.

The great outstanding features of the farm loan act are four in number, to wit:

1. Long-term amortized loans.
2. Liquid security obtained by substituting bonds for mortgages.
3. Government supervision—investors protected by inspection of appraisals—borrower protected by regulation of rates and prohibition of abuses.
4. Tax exemption to meet the conditions in a special market created by cities and States issuing large volumes of tax-exempt bonds.

Each of these four features is a new departure in the field of farm loans, so far as this country is concerned. Each is more or less dependent upon the other, and the failure of any one of these might be sufficient to wreck the entire system. Inasmuch as there still is a highly organized opposition to the farm loan system as a whole, and a very active opposition to certain features of the system, we may be pardoned if we take enough of the commission's time to definitely establish the importance of the fundamental principles of the farm loan act.

Perhaps the commission may know that one of the most important and beneficial features of the farm loan act is the amortization of loans. While a low rate of interest and the prohibition against commissions are the more immediate advantages derived from the farm loan act and therefore the more noticeable to all but students, these are only incidental benefits. One of the fundamental and permanent benefits of the farm loan system is to be found in the plan provided for amortized loans. Under this plan the borrower is given from 33 to 35 years in which to repay his principal, the annual payments on the principal being only 1 per cent in excess of the interest rate.

It is scarcely possible to overestimate the importance of this plan in its tendency to stabilize agriculture and to relieve the farmer of that which up to this time has been his most harassing burden—the mortgage on his land. By this plan the major portion of the farmer's accumulations of one season may be used by him either for expansion in the succeeding seasons or as capital to carry him through a lean season if one or more crops should fail. This plan makes for financial strength and stability. The farmer's energy can be concentrated upon his seasonable operations instead of being

directed to that nerve-racking, soul-consuming business of lifting or renewing a mortgage for half the value of his farm in three or five years. The amortization plan has not yet been in operation a sufficient length of time for even the farmer to appreciate fully the great advantages he can derive from this feature of the farm loan act. Yet while the farmer may have given attention to the more immediate benefits of the low interest rate and the abolishment of commissions, the farmer's banker and the students of agricultural economics realize that long-term amortized loan is one of the greatest advantages that yet has come to American agriculture. In our opinion Congress should not consider any amendments to the law which would deny the farmer the opportunity to amortize his land loans.

The CHAIRMAN. What proportion of the interest rate is applied to the reduction of the loan?

Mr. POWELL. The loans that are being made right at this time are being made at 6 per cent, and the annual payment of the farmer is 7 per cent—6 per cent being interest and 1 per cent being applied to the principal.

The CHAIRMAN. Does that amortize the loan in 35 years?

Mr. POWELL. It does amortize it in a little less than 33 years if payments are made semiannually and in 34½ years if made annually.

If there is any advantage which is more fundamental and which will exercise a larger influence upon agriculture as an industry than the amortized loan, it is that portion of the law which makes it possible to convert the farm mortgage into a liquid security—the farm-loan bond.

After all the big problem before us is: How shall we secure for agriculture an adequate volume of money—the full volume required to amply finance this great underlying industry—this industry upon which the prosperity of all other industries and all other business are so greatly dependent?

The CHAIRMAN. Is there much of a market for those bonds? I am not now talking about the original market, but are they sold freely after they are once issued transferred from one owner to another?

Mr. POWELL. They are transferred without difficulty. I do not think there has been a great deal of shifting of ownership because a great many of them have found their last resting place. But they frequently appear as collateral in banks and trust companies when borrowing is done. They are sometimes exchanged. There are very few of them quoted in the market page, and we know of very few of them appearing in the market, but our own 5 per cent bonds are quoted frequently at 92 and 93, and sometimes lower than that. We have always tried to buy them. We have not bought very many of them because we could not find them for sale; they were not there; only sometimes somebody has a handful of them, $10,000 or $15,000 or $20,000, which they put on the market to see what can be stirred up.

The permanent investment in agriculture is greater than that of any other industry and greater than that of any other business. In 1920 the Census Bureau preliminary estimates—not yet complete—gave the amount invested in agriculture, including lands, buildings, live stock, and machinery, as $77,925,989,073; the amount invested in manufacturing—plants, grounds, buildings, and machinery—as $46,-

00,000,000; the amount invested in the railways was given as 31,000,000,000.

Of the $77,000,000,000 invested in agriculture, something in excess f four billions was represented by mortgage indebtedness on land.

It never has been an easy matter to secure for agriculture the funds or the capital investment in land. But to-day it is doubly difficult. The war and reconstruction that has followed have brought the Nation face to face with a new condition—a condition, not a theory. There is an unprecedented demand for capital. Every line of organized business, commerce, and industry is offering desirable, liquid, nd readily salable securities in standard denominations. On liquid ecurities alone can they secure the funds they require. To-day, more than ever, nonliquid securities are a drug upon the market. The farm mortgage is not a convenient instrument of credit because f its size and because of the further fact that the underlying security can not be readily examined without a visit to and a personal nspection of the physical property. In other words, the mortgage is a nonnegotiable security. Here, then, is the condition which confronts the Nation: We must provide ample funds for the capital nvestment in agriculture, and we must provide—as already has been provided in the farm loan act—and use a different form of security han the old-style farm mortgage. The farm loan act makes it possible to convert the farm mortgage into a liquid negotiable security by substituting for this hitherto unwieldy and undesirable credit instrument the readily salable farm loan bond, with its underlying ecurity, the land, appraised and inspected by an agent of the Federal Government.

When it comes down to the ability of the market to absorb farm securities, what is the difference whether the securities are farm loan bonds or just plain farm mortgages? Clearly the amount of money that agriculture will demand immediately for land investments will not be much greater under the new system than it was under the old. The indebtedness on farm lands must be carried just as the capital investments in railroads and industrial plants must be carried—must be carried by the great investing public.

Does anyone believe that the volume of farm loan bonds to be put out by all the banks of the farm loan system, both joint-stock and Federal banks, will immediately greatly exceed the volume of farm mortgages that would be put on the market if there were no land banks? Certainly there will be some increase immediately, and eventually there will be a considerable increase. At least it is so hoped, for is this not one of the greatest purposes of the farm loan act? But this increase is to come gradually and only as the farmer learns how to go into debt and use borrowed money profitably in expanding his production operations. The farmer is not a plunger; he is not in a hurry; he is patient; he waits upon the seasons for his increase. By nature and training he is a conservative.

However, it is not so much an increase in the land indebtedness that is expected as it is a change in the form of the security and as it is a change in the term of years for which the indebtedness is to be carried and also as it is a change in the rate of interest. There ought not to be anything in this situation to alarm anyone. Either the farm-mortgage indebtedness of the country must be carried by

the men who have money to lend or the mortgages must be foreclosed and the lenders take title to the land.

The tendency toward substituting bonds for mortgages is already very strong. The practice is growing and the volume of these bonds is increasing. Even farm-mortgage concerns which are not under Government supervision and which conduct an unregulated business already are making large offerings of bonds based on farm mortgages.

If the necessities of the case demand a substitution of farm bonds for farm mortgages as instruments of credit why should any one be alarmed?

Truly one of the very great, if not the greatest of all benefits flowing from the farm-loan act, is the opportunity it provides for agriculture to have access to the investable funds of the Nation and having a gilt-edge readily salable Government inspected instrument of credit, on which it can obtain such funds as the security it has to offer rightfully entitles it. Surely this must be recognized as a great advance. And surely there should be no backward step in this phase of the matter. Congress surely will not give serious consideration to any amendments proposed to the farm loan act which will tend to deprive the farmer of this new credit instrument, the farm-loan bond.

Another phase of this matter I wanted to get before you was Government supervision. It is quite the fashion at this particular time to object to Government regulation and Government supervision of business. I think it is very easy to get too much of it. Yet there are certain kinds of business that it is simply impossible to operate without a certain degree of it. Banking happens to be one of them, and the land bank was a part of the banking business of the country that up to the time of the passage of the farm loan act had had no regulation of any kind. The method or system of making loans on farms has accumulated a long list of abuses. These abuses are known to every one, the most notorious of them of course being extortionate commissions and high rates of interest in undeveloped sections, so that the men who least could afford to pay the high rates were the very persons from whom lenders exacted the highest rates. Borrowers in Montana and in Texas, where picking really is pretty slim in agriculture, or has been particularly so during the last two or three years, are the persons who have had to pay 10 per cent and 12 per cent and 15 per cent. They could least afford to do it. The abuses I speak of have developed along the line that abuses usually develop; that is, lenders have taken advantage of the necessity of borrowers, and the man who has had the greatest necessity is the man who has suffered the most. For that reason Government supervision was first thought to be a good thing in this field.

The CHAIRMAN. Have you any idea how prevalent the practice of charging commissions is?

Mr. POWELL. I have a pretty firm conviction—although I have not made such a study of it as would enable me to make a definite statement in the way of figures that I would want to go in the record, but I can say it obtains in almost every State in which we have banks doing business under this act. We find commission charges are very high in the West. They are not so high in the Middle West, neither are the interest rates. I have been told,

although we have no bank operating there, that there are very few commissions charged in New England or in New York. Commissions are low there and frequently loans are made in those sections without charging any commissions.

The CHAIRMAN. I have some data here, collected by the Farm Loan Board, which indicates that the highest rates are charged in the Southern States, more particularly there; commissions in Georgia running all the way from 2 per cent to 10 per cent; in Louisiana, from 5 per cent to 8 per cent; and in Kentucky from 3 per cent to 10 per cent. Those are the highest rates I see here. The western section of the country comes next, and the Middle West third, and the East last.

Mr. POWELL. That was the relation I had in mind. Our figures differ slightly from those, but not materially, collected from somewhat different sources, they not being tabulated and not having been as yet carefully studied.

I was going to make this point, that Government supervision, while of great benefit in eradicating these abuses and welcomed on that account, as it should be welcomed by the farmer on that account, becomes absolutely necessary as a protection to the investing public as well as to the borrower when you attempt to operate a system like the farm-loan system, with long-term loans and with your money assembled by the issuance of bonds. Without Government supervision your bonds would be open to question, and without bonds you would have no long-term loans. So if you are going to preserve amortized loans, and if you are going to preserve the integrity of bonds, you must have Government supervision.

Without Government supervision it would be very difficult to maintain either the amortization plan or the liquid security. A long-term loan—a loan from 20 to 35 years would be practically impossible on an old-style farm mortgage. The farm-loan bond is the instrument which makes the long-term amortized loan possible.

And because of the fact that farm mortgages are issued from almost every township, in every county, and every State throughout the entire country, acceptable information—that is, reasonable assurance—as to the reliability of the appraisal and the relation of the land value to the face of the mortgage can not be readily assembled for the investor.

Because of these difficulties in determining values no bonds could be sold readily without Government supervision. Supervision by the Government gives stability to the value of the bond. This supervision is a protection to the investor.

In a word the amortization plan can not be successfully handled without bonds and bonds can not be readily sold without Government supervision. Therefore we hold that Government supervision should be continued and that the efficiency and rigidity of the supervision should be increased rather than lessened.

There is one other phase which I want to discuss, and that is tax exemption. If it were not for the fact that there is already a special market which absorbs anywhere from $10,000,000,000 to $20,000,000,000 of the money of the country it would not be necessary for the farm-loan system to issue tax-exempt securities. But with the existence of this special market, which does absorb of tax-exempt

securities from $10,000,000,000 to $20,000,000,000, then it becomes necessary for us to exercise the same privilege or we will not be able to get money for agriculture at a low rate of interest.

If I may be pardoned, I will discuss this subject from the standpoint purely of the joint-stock land banks. I was asked, when before a committee of the Senate on Banking and Currency, if there was any reason why we could not function and sell our bonds without their being tax exempt. The answer was and is, there is a big reason, and that is, the law itself, which provides that we are to lend this money at 6 per cent. That is the maximum we may charge. When we have to lend money to the farmer at a maximum of 6 per cent we can not go out and raise money on a taxable bond because no taxable bond can be sold in the market, nor has been sold in recent years, nor ever will be sold, for a long time at least, bearing the rate of 6 per cent or less. That is the real reason why we have either to have a tax-exempt bond or go out of business. The law drives the peg there; we can not charge the farmer above 6 per cent, and certainly we can not lend money for less than we can hire it for.

Representative TEN EYCK. What you mean by that statement is the competition between your bonds and other tax-exempt bonds would demand of you a higher rate of interest unless you issued tax exempt bonds?

Mr. POWELL. That is it exactly. Unless tax exempt we would have to pay a higher rate, and if we pay a higher rate the farmer will have to pay us a higher rate. When you have said to the farmer he may have his money at no higher maximum than 6 per cent, then you make it impossible for us to do business on any other than a tax exempt basis.

It seemed to the authors of the farm loan act that if agriculture was to have money in sufficient quantity at low rates of interest and on convenient terms, then the bonds issued against farm mortgages should be exempt from all taxation for the very purpose of securing this low rate of interest.

It was a condition and not a theory which confronted the men who framed the farm loan act and provided for the exemption from taxation of the mortgages and bonds given under the farm loan system. The same condition still obtains. With the great volume of tax free securities already afloat, a special market has been created. Apparently there is authentic statement available as to the amount of outstanding tax-free securities. The Secretary of the Treasury, wishing to be free from the charge of making a sensational statement, places the figure at $10,000,000,000. Other authorities, students of finance, place the figure somewhat higher—some at twelve, some at fifteen, some at twenty billions. The American Academy of Political Science makes an estimate of $18,300,000,000 tax-free securities now outstanding.

It is, of course, impossible to assemble money at a low rate of interest without issuing a security that can meet the competition of this ten to twenty billions of tax-free securities. That was the condition that confronted the framers of the act. That is the condition that still confronts the farm loan system.

Accordingly, the securities issued under the farm loan act were made exempt. In four years' time a total of $435,000,000 of tax-exempt farm loan bonds have been issued and sold. One hundred

and eighty-three millions of these are held by the United States Treasury, leaving $252,000,000 which have been absorbed by the investing public.

Having adopted a plan of rural credits based upon the tax exemption, it is an obligation of Congress to inquire whether the farmer gets the fullest benefit of that exemption.

From the time the farm loan bond is issued and sold to the investor to the time when the money it has brought in the market is distributed to the borrower there are only four persons who might benefit by the tax exemption—the bond seller, the bond investor, the land banks, the borrower.

What do the bond houses get out of it? They make no larger margin of profit on tax exempt bonds than on those that are taxable. The bond houses are merely merchants. They buy at one price. They sell at another.

The CHAIRMAN. Does that necessarily follow? Is it fair to assume that the buyer will pay a higher rate for a bond that is nontaxable than he will for a bond which is taxable, and if he does that a larger margin of profit would be made on the sale of the last-named bond?

Mr. POWELL. The only thing I could answer to that question is that the practices and the records will show that bond houses make about the same margin of profit on all of them. I think the records will show that during the past five or six years that the largest margin of profit has been made off of taxable bonds by the bond houses. But there is one way of getting at that so as to eliminate it from the realm of argument—get the record of sales. It would be rather unprofitable for me to set up my opinion in the matter, for it would not be worth much. But I think that is what you will find the record to be. At least that is what the bond houses tell me.

The CHAIRMAN. Of course, theory always has to succumb to the force of fact, but if you are putting the proposition on an argumentative basis it does not seem to me that that would necessarily follow.

Mr. POWELL. I know, but what is your conception—and this is worth talking about at this time—what is your conception of the advantage in buying tax-exempt securities?

The CHAIRMAN. There is no advantage unless the income of the man who buys a tax-exempt security is sufficiently large that the tax-exempt feature becomes a consideration for him. And, of course, there enters into that question what is probably the controlling consideration, the amount of tax-exempt securities offered in relation to the demand for such tax-exempt securities. Of course, if the demand is large, or larger than the supply, the tendency would be for the margin that might be made to increase or decrease accordingly.

Mr. POWELL. Yes. I think we can get at just what you are speaking of here by taking up the next fellow who profits or who might profit by handling tax-exempt securities. When you asked your question we had reached in our description of these transactions the bond seller; that is, the bond house. The next person who touches that bond is the investor.

What does the investor get out of it? The small investor gets only a small advantage at any time. He takes a lower rate than he otherwise could get. In normal times there would be no financial advantage for the investor other than the character and safety of the investment, because the current commercial rate of interest is only

the rate on Government loans or the rate on the tax-exempt security plus the amount of the tax. The commercial rate automatically adjusts itself to the supply and demand, starting with the Government tax-exempt rate as the base. In these times there is somewhat of an advantage to the large investor. But these bonds are widely distributed. In the last sale of joint-stock land bank bonds 500 bond houses participated in the sale, with an assignment of $30,000 to a bond house. This $30,000, of course, had to be sold to each bond house to its customers, thus insuring a very wide distribution, and thus showing conclusively that no considerable amount of these bonds is held by large investors.

What do the land bankers get out of it? The distribution of money assembled by the sale of farm loan bonds is made to the borrower through two types of banks—the Federal land bank and the joint stock land bank. Who are the stockholders of the Federal land banks? They are the borrowers. They own the banks. In their capacity as stockholders in Federal land banks they have no natural rights that are denied to stockholders in the joint stock land banks. Who are the stockholders in the joint stock land banks? Some of them are borrowers. They are not required to be borrowers, but borrowers may be stockholders, and in many instances are.

Now, what do the stockholders in these banks get out of the tax exemption? The money is assembled on a tax-exempt bond, but the loan is made at a fixed rate. These joint stock land banks do not operate for a profit in the ordinarily accepted sense of the word. Their profit is not elastic. It is fixed. It is limited. They may lend to the farmer at a rate not to exceed 1 per cent in excess of the rate which the bonds bear. Consequently they have no selfish concern about the rate of interest, excepting only that the rate on the bonds shall be such as will meet the market conditions and sell the bond. In other words, they do business for a fee—a fixed charge for the service they perform—the service of carrying the money from the investor to the borrower. They have no other source of income.

The benefits of the tax exemption can not stick to the fingers of the bankers. The law provides that the benefit of the exemption must be passed on to the farmer. That provision, as we have seen, is in the low rate of interest at which these banks are required to lend, and also in the limit on the fee the banks are permitted to charge.

Having seen that the bank is but an agency through which the money is distributed to the borrower, and having seen that the bankers must perform this service of carrying the money from the investor to the borrower for a fixed fee, we must be convinced that the borrower gets the benefits of the tax exemption.

It is quite one thing to operate a bank for profit if there is no limit on the profit you can make, and it is quite another thing to say that you are operating a bank for profit if you only have one source of income and that is defined and rigidly fixed by law.

Representative MILLS. I do not know that I quite get that statement. Suppose a man is a stockholder in one of these banks and not a borrower, would he get any profit on his stock?

Mr. POWELL. Oh, yes.

Representative MILLS. What would he get?

Mr. POWELL. He would get whatever the other fellow got, whatever the bank earned.

Representative MILLS. Is there any limit to that?

Mr. POWELL. There is no limit except as to what the bank can earn. But the bank has no source of income except that one, the spread of 1 per cent, and the stockholder gets his proportion of whatever the bank earns.

The CHAIRMAN. How many times is the capital of the bank loaned?

Mr. POWELL. The joint-stock land bank may loan fifteen times its capital and the Federal land bank may loan twenty times its capital.

Representative MILLS. There is no reason why they should not make a fair profit, then?

Mr. POWELL. They have been in operation now, some for two years, some for three years, and there is no bank that has made to exceed 11 per cent. Those that are paid up and clear out of the woods, having made all the loans they can make, having turned their capital 15 times——

The CHAIRMAN (interposing). The maximum that a bank with a capitalization of $1,000,000 could earn would be $150,000 a year, less whatever the expenses might be?

Mr. POWELL. Yes, sir.

Representative MILLS. But the more cheaply they can get money the more profit they make?

Mr. POWELL. If we borrow at 4½ per cent, we must loan at not to exceed 5½ per cent, because we are limited to 1 per cent spread. There is another limit. We can not under any circumstances lend money to a farmer at more than 6 per cent. That is an arbitrary limit.

Representative MILLS. And the borrower profits by it?

Mr. POWELL. Yes, sir. The tax exemption gives that advantage to the borrower. The benefits of the exemption can not stick to the fingers of the bond seller or the land banker or anybody else.

Representative MILLS. The net result is that the borrower gains, the purchaser of the bond gains, and the United States Treasury suffers, and to that extent it comes out of the common purse?

Mr. POWELL. That is a very logical statement of it.

Representative MILLS. You are then favoring two classes of people at the expense of all the people?

Mr. POWELL. I do not know how much it can be said that you are favoring the large investor, because there is no way at this time to prove that the large investor is getting it. It is pretty widely spread we know from our own sales, and from the last sales made by the Federal land bank.

Representative MILLS. But they are profiting pretty largely by all tax-exempt securities?

Mr. POWELL. There is no doubt about that.

Representative MILLS. And this is a part of the mass of tax-exempt securities?

Mr. POWELL. There is no attempt to escape that at all, except I do not think it would be profitable to remove that, particularly in view of the fact that agriculture, like building sanitary cities, is a matter which is to be encouraged, not for the benefit of the individual, but for the benefit of the Nation.

Representative MILLS. Of course, that would apply with equal force to any one of our important industries, would it not?

Mr. POWELL. No; I think not, because your industries are unquestionably profitable and attractive. Agriculture is only profitable at times and is seldom attractive, as evidenced by the fact that the population is moving to the cities, and that the population of the entire country has increased 15 per cent in the last 10 years while agricultural production has increased less than one-half of 1 per cent.

Representative MILLS. So you are willing to frankly meet the issue and say that agriculture is in need of a Government subsidy and that a Government subsidy is justified?

Mr. POWELL. I think I can very safely state that just as people engaged in the manufacturing business ask for a tariff, so do we want this assistance. It is the same thing. You ask the Government to give a market for your goods, to create a market for you, and to do it the farmers of Iowa have been for 25 or 50 or 75 years voting for a protective tariff, because it makes a market for your goods, and they say that the protective tariff on articles manufactured in New England and in other portions of the country produce a market for the corn and oats and wheat and other things grown in Iowa. You have a solid Republican delegation in the Congress from Iowa right now elected on that argument. So I think we can safely rest our case on that proposition—that agriculture is entitled to it the same as you fellows are entitled to it.

Representative MILLS. Entitled to a subsidy?

Mr. POWELL. Yes; it is the same thing. It is a little different, but it is the same idea.

The CHAIRMAN. Suppose it were possible for Congress to remove the tax requirements from all securities?

Mr. POWELL. We would not need it at all. If it were not for the special market created by other tax-free securities it would not be necessary for us to have tax exemption. The thing that controls the interest rate is the big special market which absorbs from fifteen to twenty billions of the country's money. That is the thing that controls the interest rate, and everything outside of that special market has to pay a higher rate. To get the low rate we have to get out a security that can enter that special market. If you abolish entirely the special market, we do not need tax exemption at all.

Representative TEN EYCK. In other words, the value of the security would stand upon its own base?

Mr. POWELL. Absolutely. But you have got a condition and not a theory. You have a practical fact that the interest rates are established absolutely by the volume of tax-free securities.

Representative TEN EYCK. Is it your idea that we would all be better off if we had no tax-exempt securities?

Mr. POWELL. They do not have any tax-exempt securities in Europe. Hardly any nation over there has them. Of course tax exemption is a nice thing to think about in this way: In this country we wanted to put in sewers and wanted to provide a pure water supply. Why? Because through the thousands and thousands of years of plague and disease that have almost wiped the face of the earth clean of humanity we learned that you have got to care for the sewage; that you have got to protect your water supply. When we came to do that we found it took a lot of money. It could not be done individually; it had to be done collectively. So some people

aid: "We must have a bond issue." Others said: "The public can ot be induced to issue such a large amount of bonds. The public rill not go in debt so deeply." Then it was suggested that the bonds rould have to be exempt from taxation, so we could coax the people ato spending the money and into going into debt. For what? For he protection of the health of all the people.

Now, then, when you had gone into that business it was very easy o go one step further and say, "We will extend the principle so as o include lights; we will make it apply also to paving." It was very atural that after you created a special market of that kind everyody wanted to come into it. Now, there is the same excuse for givng agriculture access to that special market as there was for putting he sewers and water supply into it. It has that feature in it. Food s just as necessary as water. A food supply is a matter of public oncern, just as is a supply of pure water. The issuance of tax-free onds to insure ample food has the same warrant as the issue of ax-free bonds to insure pure water supply.

Representative MILLS. Until it reaches the point where the whole hing ought to be abolished and must be abolished.

Mr. POWELL. Yes. But at the same time this is a fine thing to hink about: If you are going to abolish it you ought to start with he 97½ per cent, and not with the 2½ per cent. The proposal has een made, and has been defeated in the Senate committee—it has ever gained any headway to amount to anything in the House—hat they take the tax exemption off the joint-stock land-bank bonds. To do that would be to take the tax exemption off less than ½ of one per cent on your entire volume of tax-free securities. What would hat do for revenue? It would not do anything at all for revenue.

The CHAIRMAN. It would do something for the joint land banks though?

Mr. POWELL. Oh, it would put us out of business; that is, if we still had to lend at 6 per cent. If you take the interest rate off, then we become an old-style mortgage bank and we go out and harpoon right and left wherever, whenever, and whoever we can. At this point it may not be out of place to remind the commission that there never was heard any protest, there never was seen any propaganda against tax-free securities until the farmers began to make use of them.

Representative TEN EYCK. It is your idea that these bonds should remain tax exempt until a general policy is established doing away with the exemption of other bonds?

Mr. POWELL. That is exactly the idea.

There is a veritable mountain of facts concerning the interest rates which the farmer has paid for his money. Interest rates on farm mortgages throughout the years prior to 1916 varied all the way from 4½ to 5 per cent as the minimum to 10, 12, and 15 per cent as the maximum, the low rates prevailing in the old, settled communities, the high rates applying in the new communities. When the farm loan act began to operate interest rates were stabilized throughout the United States. Men who had paid 10 and 12 per cent in Montana and Texas secured loans under the farm loan act at 5½ and 6 per cent.

Four hundred and thirty-five millions of dollars have been supplied to farmers in four years by the banks of the farm-loan sys-

tem. It has been estimated that the farmers of America have saved from thirty-five to forty millions of dollars in interest and commissions and that every farmer, no matter of whom he has borrowed, has received a part of the benefit of this tax exemption, because all money lenders have had to meet the competition of the land banks.

Clearly, if there are benefits for agriculture under this plant of rural credits based upon the tax exemption, the concern of Congress should be to preserve these benefits. If it were shown that the land banks were getting the benefits which should go to the farmer, the remedy would not be to destroy the banks. That would deprive the farmer of the benefits, for all understand that there must be some distributing agency.

If it is proposed to reverse the Government's policy regarding rural credits and to deprive agriculture of the right to assemble funds on tax-exempt securities, what is to be gained?

Is it revenue?

There are only about $4,000,000,000 of farm mortgages in the United States, which, according to the best authorities, are held as follows:

Insurance companies	$1,100,000,000
Savings banks, State banks, trust companies, and commercial banks	1,000,000,000
Eleemosynary institutions	400,000,000
Local loans	1,250,000,000
All other	250,000,000
Total	4,000,000,000

Without exact knowledge as to where the bonds of the farm loan system are held and without exact information as to the income of the men holding them it is impossible to estimate with any accuracy what revenue these bonds would produce if taxed.

Evidence is not wanting, however, that these bonds are widely distributed. In the last offering of Federal land bank bonds approximately 500 bond houses participated in the sale. This surely indicates a wide distribution. In the last sale of joint stock land bank bonds more than 500 bond houses participated with assignments of about $30,000 worth of bonds to each bond house. This also indicates a wide distribution. The names of the purchasers of these bonds are held by the bond houses and are not accessible to either the land banks or the public.

If any considerable number of these bonds is held by men of small incomes, as it seems fair to assume is the case, the revenue to be derived from taxing these bonds would be less than if they were held by men of extremely large incomes.

There has been a proposal made to tax the bonds of joint stock land banks. The argument presented in support of this proposal is that they are privately owned institutions reaping a benefit from issuing tax-free securities and depriving the Government of revenue at a time when revenue is extremely difficult to obtain. We need not further consider the statement that these banks benefit from the tax exemption, for we have seen that the benefits are passed on to the borrower. However, it may be worth while to inquire about the matter of revenue.

Prof. Putnam, of Washington University, located in St. Louis, has been quoted as saying that the Federal tax on each billion

dollars' worth of tax-exempt securities would be $8,820,000. If this is correct, the amount of revenue to be derived from taxing joint-stock land-bank bonds now outstanding, $78,000,000, would be negligible. And if the time should come when the joint-stock land banks had outstanding in future issues $250,000,000 of bonds, the revenue to be derived from their taxation at the present rate would be but $2,000,000.

If the surtax should be reduced, as is recommended by the Secretary of the Treasury, from 65 to 40 per cent, the revenue to be derived from joint-stock land-bank bonds would be reduced to an amount slightly in excess of $1,000,000.

When we recall that from ten to twenty billions of tax-exempt securities are now outstanding the inquiry suggests itself: Why strain at a gnat and swallow a camel? Why remove the tax exemption in the very quarter where it is doing the most good? Why remove it in these abnormal times before there has been opportunity to give the plan a fair test? Why of all times do it now when agriculture is crippled and least able to stand this blow?

To tax joint-stock land banks would mean only that Congress would be compelled to increase the limit of the maximum loan of Federal land banks, for if joint-stock land banks are killed and the maximum loan of Federal land banks were not increased, the most energetic and efficient farmers in America would be injured, production would be crippled—the very men who produce the commercial surplus would be denied access to the credit afforded by the farm loan system.

On the other hand, if the maximum loan of the Federal land banks is increased to $25,000, what effect can it possibly have upon the revenues of the Government to kill the joint-stock land banks?

The CHAIRMAN. Are you going to give us any figures showing the amount of loans made by joint-stock land banks and the amount of loans made by the farm loan associations?

Mr. POWELL. I have those figures right here.

Since July, 1916, when the farm loan act was passed, loans have been made by the banks authorized and created by this law to a total of 140,962 farmers, with the total amount of these loans amounting to $455,302,061.

Representative MILLS. Are those all joint-stock banks?

Mr. POWELL. Those are both joint stock and Federal land banks.

The total number of loans made by the Federal land banks—so-called cooperative banks—up to May 31, 1921, was 132,531, and the total amount of Federal land bank loans was $373,258,390. Up to the same date the joint-stock land banks had made loans to 8,431 farmers, the total amount of the loans being $82,043,671.

The CHAIRMAN. Well, the situation has reversed itself from what it was originally, has it not?

Mr. POWELL. No.

The CHAIRMAN. I was under the impression that originally the amount of loans made by the joint-stock land banks was apparently larger than the loans made through the Federal land banks.

Mr. POWELL. No; the individual loan is relatively larger. Our loans average around $9,000; theirs average around $2,700 to $3,000.

Representative TEN EYCK. Are you limited as regards the amount you can loan on any particular piece of property?

Mr. POWELL. We are limited by a ruling of the Farm Loan Board which ruling may be changed at any time to meet a new condition. We are limited now to $100 an acre. That is the most we can loan, no matter if the land is worth $1,000 an acre.

Representative TEN EYCK. But you can make an individual loan in excess of $10,000?

Mr. POWELL. Oh, yes; up to 15 per cent of our capital. We can not make a loan beyond $37,500, unless we increase the capital stock of our bank or the bank has already a larger capitalization. Then there is an arbitrary limit so that no bank under any condition can lend more than $50,000 to one individual. But most of the banks are organized with $250,000 capital, and may not lend more than 15 per cent of their capital to a single individual.

Representative TEN EYCK. That is the reason why your loans are larger than the average of the Federal land bank loans?

Mr. POWELL. Yes—well, because we are permitted to do it; and our loans are larger, too, because the Federal land bank is not permitted to make large loans, and the fellows who need the larger loans, not being able to get the accommodation they require at the Federal land bank, come over to our bank and get them. We might have made more of the smaller ones except for the fact that there were more of the larger ones than we could handle.

Representative TEN EYCK. Is there any difference in the profits on your small loans and on your large loans?

Mr. POWELL. Oh, there is a difference there, certainly. It takes the same amount of overhead to carry a small loan as it does to carry a large one. There is the same amount of bookkeeping, the same amount of inspection, and all that sort of thing.

Representative TEN TYCK. So it is not a detriment to you to have your average larger?

Mr. POWELL. Oh, indeed not. If the Federal land banks were operated as profit-earning concerns and were permitted to escape the small loans altogether I think they would do it as a matter of economy. I think any experienced mortgage man will tell you that if he has an application for a small loan—$1,000 or $2,000—he does not make any haste to go out and examine the land; he waits until he has half a dozen applications from the same community, so he can make the same overhead expense cover the inspection of two or three applications.

Representative TEN EYCK. Who pays for searching the title and for other information along that line?

Mr. POWELL. All the expense in connection with the preparation of the record for the loan—that is, the title and all that sort of thing—is paid by the borrower, in both banks, both the Federal land banks and the joint-stock land banks. But there is no commission that may be charged by either of the banks and nothing that can be, in effect, a commission. There is no way in which that can be circumvented.

Representative TEN EYCK. Have you a definite charge for this search? Have you men who do this for a certain amount, or do they have their own lawyers, and are you subject to a charge as regards the use of their attorneys to make that search?

Mr. POWELL. Here is the way that thing is usually done: The appraiser, who is under the direct control of the Federal land bank, makes all the appraisals for both the joint-stock land banks and the

Federal land banks. His expenses for going out in the country to see a piece of land, his time and expense for going to the courthouse and examining the title, and that sort of thing, examining the record of sales in the county, and everything that goes into an appraisal, is charged up to the borrower himself. In the case of a farm loan association, they conduct their own investigation, I think, because they know the land, the loan is made in territory that they know, and their findings are given to the Federal appraiser, who checks them up or makes an independent investigation.

In the case of the joint-stock land banks we not only have the Federal appraiser but we use another appraiser of our own to check him. The reason we do that is not necessarily because we are afraid of the Federal appraiser but we have our own money at risk, with double liability on all the stock, and we would not like to get bit on a bad loan. So we are very careful about it.

Representative TEN EYCK. I understand all that, but my question was as regards the man who passes upon the title to the property. Does your appraiser do that also, or is that passed upon by another attorney? Of course, it is necessary that you know the title lies in the man who is borrowing the money.

Mr. POWELL. That happens to be a part of the proceeding with which I am not personally familiar, but I believe that matter is all conducted by the appraisers and the examining attorneys of the Federal land bank. I may be mistaken, however, as to that.

Representative TEN EYCK. But there is, of course, a chance that the farmer or the borrower could be gouged somewhat?

Mr. POWELL. Oh, yes; if he employed independently his own attorneys.

Representative TEN EYCK. Because the attorney is not like the one-price shoe man; he charges what he thinks his services are worth?

Mr. POWELL. Yes; but I think that thing is done entirely by the Federal appraiser and title examiners, and I think that charge is made through the Federal land bank, and is made through the Federal Farm Loan Board, and is standardized, so to speak. In other words, the attorney who does this work is appointed by, and his charges regulated by, the general attorneys for the land bank district.

If you have a copy of the law here, I think you will find all that is specified in the law.

Representative TEN EYCK. I never understood that, and that is what I want to get at.

Mr. POWELL. You have a copy of the law here, have you?

The CHAIRMAN. Yes. The abstract of title is required to be furnished by the applicant, and is examined by the legal department of the land bank.

Here is something about fees. I will see what it says.

Representative TEN EYCK. In the case of savings banks, they have their own attorneys to examine titles, but the borrower pays it.

The CHAIRMAN. It is stated here that the expenses of the land banks consists of the expense of making appraisals of land and examining the title. To cover this cost, land banks are authorized under the act to charge reasonable fees, not exceeding the actual cost. These fees are, however, considerably less than the cost of the serv-

ice, and the different fees are applied to the earnings of the land bank.

Mr. POWELL. There you have it.

Representative TEN EYCK. That does not cover the amount of the attorneys' fees, as I understand it.

The CHAIRMAN. He would have to pay whatever the lawyer's fee is; that would be so in any event.

Mr. POWELL. But the general practice is that it is all governed by the legal department of the Federal land bank. They examine the title, and that work is delegated to the appraiser, who is often a lawyer as well as a man with a knowledge of land. Often he is lawyer enough to go through that thing and operate under the rules that they lay down for him and make a good examination of title. If he is not, then an examining attorney is appointed by the legal department of the Federal land bank.

Representative TEN EYCK. The whole thing is surrounded by caution and good judgment, to save expense to the borrower——

Mr. POWELL. Yes.

Representative TEN EYCK. With this one exception, that there is no specified maximum amount as regards the cost of searching the title and issuing of the abstract?

Mr. POWELL. No.

Representative TEN EYCK. So there is a chance that there might be a considerable leakage?

Mr. POWELL. I grant you that. But do you not think the probability of it is very slight when you consider that it is done by the Federal land bank, which is under the direction of the Farm Loan Board, a bureau of the Treasury Department of the United States Government?

Representative TEN EYCK. The law says that the borrower shall furnish the abstract. You approve the abstract, however, and see that it is all right. I am not prepared to make any recommendations on it, however, but it was one thing that I did not altogether understand.

Mr. POWELL. The difficulty between you and me was that I was at first talking about the appraisal and you were talking about the furnishing of the abstract. As I understand it, you can not get an abstract without paying for it, anyhow.

The CHAIRMAN. When a man buys a piece of land he generally buys the abstract with it up to the time he gets it, and the only expense is that of the transfers he has made in the form of mortgages or tax deeds that have been put on the land, and the necessary certificates of title. That is not very much, and there is not very much opportunity for any gouging. Of course, as I said, if a man has a defective title and has to employ a lawyer to clear it up there is no way of regulating the lawyer's fee for doing it that I know of.

Representative TEN EYCK. They do on pensions. No matter how much a lawyer works in a pension case he is limited to a fee of something like $10. I am not advocating that.

Mr. POWELL. The total number of farm loan bonds authorized on May 31, 1921, was $448,997,235. Of this amount $372,853,735 were Federal land bank bonds, while $76,143,500 were joint stock land bank bonds. Not all of these bonds have been sold. The amount of outstanding bonds is in each case slightly less than the amount au-

thorized. The amount of outstanding Federal land bank bonds is $372,141,838.75, according to the regular monthly statement issued by the Farm Loan Board as of date, May 31, 1921. The amount of outstanding joint stock land bonds, as shown by the same statement, is $61,516,899.

The amount of Federal land bank bonds held by the United States Treasury was on May 31, 1921, $183,035,000; and the amount of Federal land bank bonds which had been sold to the public up to that date was $189,106,838.75.

The United States Treasury holds none of the bonds of the joint stock land banks. The entire 61,000,000 outstanding was sold to the investing public.

According to the 1920 census, the total farm mortgage debt of the United States was $4,012,716,213. The total loans made through the farm loan system, made by both Federal and joint stock banks, amounted to $455,302,061, or 11.34 per cent, of the total farm mortgage debt of the United States.

While the volume of business done by the banks of the Federal farm loan system, as we have seen, amounts only to 11.34 per cent, nevertheless these loans made at a low rate of interest and without commissions have had a very noticeable influence upon the interest rates of all farm loans.

In 1916, as we have seen, interest rates varied all the way from 4½ to 5 per cent as the minimum to 10, 12, and 15 per cent as the maximum, the low rates prevailing in the old, settled communities, the high rates applying in the new, sparsely settled communities. The influence of the loans made by the banks of the farm loan system was to stabilize interest rates on farm loans throughout the entire country. In Montana and Texas where rates had been 10 and 12 per cent, farmers were able to get money at 5½ and 6 per cent through the farm loan system, and the rates charged by commercial concerns dropped considerably. Every farmer, no matter of whom he borrowed, was benefited by the farm loan system, because all money lenders had to meet, in a measure, the competition of the land banks.

We got the "reverse English" on this proposition when the banks of the farm loan system were compelled to suspend operations owing to a suit in the courts to test the constitutionality of the act. As soon as the land banks ceased to lend at the low rates, the old-style mortgage brokers returned at once to the high rates which had obtained before the passage of the farm loan act and returned also to the system of charging exorbitant commissions. And these conditions obtain at the present time, though somewhat worse, both as to interest and as to commissions, than they were prior to 1916.

While no statistics have been compiled, and therefore no definite figures are available, it must be evident to all that by making large and full use of the Federal farm loan system the farmer can secure also a considerable degree of permanent and fundamental relief in the matter of short-time credits.

Those who borrow of the land banks are given 33 to 35 years in which to repay the principal. The loans are made on the amortization plan, and the annual or semiannual payments are small, amounting to only 1 per cent of the face of the loan. The rate of interest is low. The rate can not exceed 6 per cent, but if interest rates in general should be reduced, the borrower has the privilege and the

right to pay off his loan negotiated at the higher rate of interest, and to refund it at whatever low rate of interest may prevail at any time after the fifth year.

By these generous provisions many of the irksome conditions which hitherto have accompanied the making of loans on land mortgages have been removed. The farmer who makes a long-term amortized loan is in a much more comfortable position than if he had made a loan running three to five years. He knows that he can meet at each interest-paying period the small additional payment required as an installment to be paid on the principal. And he knows that if he meets these small annual or semiannual payments he is in no danger of a foreclosure.

The money for the long-term loans is supplied from the wholesale money markets in the great commercial centers. In other words, it is outside money which has come in to carry the farm-mortgage loans. The local banks are relieved from the burden of carrying the long-time indebtedness, and consequently a larger proportion of the local funds are available from which to make short-term loans than would have been available had not these long-time loans been cared for by outside capital.

In a word, much local money which under ordinary circumstances would be invested in farm mortgages becomes at once available for short-term loans.

One of the difficulties in financing agriculture has been the inability of the local banks to supply adequate funds. Heretofore they have been called upon to find money to lend on farm mortgages quite as well as to find the money with which to buy live stock or machinery, or with which to erect buildings. The ability to supply ample funds for short-time loans for use in productive operations has been limited automatically by the amount of local money available for all purposes.

Take the State of Iowa: In the three years the farm loan system functioned before it was held up by a suit in the Supreme Court the farmers of Iowa borrowed $47,000,000 of the banks operating under the farm loan act. This means that Iowa farmers secured $47,000,000 under the conditions which gave the borrowers 33 to 35 years in which to pay off their debt. To be sure, a part of this sum was devoted to the refinancing of old indebtedness formerly carried on mortgages given to life insurance companies or to great estates or savings banks engaged in the practice of lending money on land mortgages.

However, a considerable portion was devoted to the refinancing of loans that were made by farmer to farmer, by father to son, or by seller to buyer. These old loans made between local parties often involved only a small amount of actual cash, the seller accepting a part payment—often a small payment—and taking a note and a mortgage for the remainder. Under the new plan the seller gets his money because the same is advanced by a joint stock land bank or a Federal land bank, and this money so advanced he can put into his local bank or lend out on notes secured by chattel mortgages, or possibly on notes given by men whose credit is such as not to require a chattel mortgage. In other words, if the farmer will borrow of the farm loan system instead of borrowing of his neighbor, he will be

in position to get short-term credit at his local bank because the bank will have the money to lend him when he needs it. The refinancing of the farm-mortgage loans on the long-term plan does materially increase the amount of local capital available for the ordinary local purposes of local banking.

With more local money available, the banker is more nearly able to supply the needs of all the borrowers of good credit who apply to him.

Much of the criticism which has been directed at the joint land banks is based upon the supposition that these particular institutions operating under the farm loan act may lend money for any purpose. This is not true in fact. It is not true in practice. It simply can't be done. However, the criticism has a perfectly just foundation. There is nothing in the law, excepting the title to the act, to prevent joint stock land banks from lending money for any purpose. In fact, the law specifically exempts them from the restrictions on mortgage loans which apply to loans made by Federal land banks as provided in the first, fourth, sixth, seventh, and tenth subsections of section 12 of the act. The fourth subsection referred to specifies the purposes for which loans may be made and says that loans shall not be made for any other purposes. The purposes so enumerated are:

(a) To provide for the purchase of land for agricultural uses.

(b) To provide for the purchase of equipment, fertilizers, and live stock necessary for the proper and reasonable operation of the mortgaged farm; the term "equipment" to be defined by the Federal Farm Loan Board.

(c) To provide buildings and for the improvement of farm lands; the term "improvement" to be defined by the Federal Farm Loan Board.

(d) To liquidate indebtedness of the owner of the land mortagaged incurred for agricultural purposes, or incurred prior to the organization of the first farm loan association established in and for the county in which the land is situated.

However, despite the fact that the law does not restrict the joint-stock land banks as to the purposes for which they may make loans, the Farm Loan Board very early in the history of the system made a very just and proper ruling that loans must be made only for agricultural purposes, and the board in notifying the banks of this ruling announced that it would not authorize the issuance of bonds for loans made for any other than agricultural purposes.

The board has rigidly enforced this rule, and the joint-stock land banks have lived up to the rule rigidly. So we see that joint-stock land banks can not lend money for any other than agricultural purposes.

However, the law, in our opinion, should be so amended as to remove all doubt as to the purpose of the loans made by these institutions, and thus clear the atmosphere of all criticism on this point. The joint-stock land banks ask that such an amendment be made to the law.

Representative TEN EYCK. There is one other question, Mr. Chairman, that I would like to ask. It has been suggested here previously that there is a necessity of extending the natural duration of the discount on short-time loan to the farmer from 90 days to 9 months or a year; and from the weight of the evidence here it looks as if that is a reasonable thing to do, because it covers the duration of

his turnover. We have had it suggested here that this sort of loan could be made by your banks and by the Federal land bank. What do you think of that?

Mr. Powell. Well, that could not be done without a change in our charters, and it could not be done without separate or additional capital. All the capital that is now subscribed to any of these banks, or to most of them at least, is pledged as security for the bonds that are outstanding. It would require a new organization on our part to do it.

Representative Ten Eyck. Would it require at certain peak times large volumes of money to meet the demand, for you to loan money, and at other times when crop movements were not under way that this money of yours would lie idle because you could not lend it in the usual way?

Mr. Powell. We would not be authorized to loan it in any other way. Being limited as it is, it would be idle a part of the year.

Representative Ten Eyck. Would it be a good thing to change your charter, or do you feel that you have a function to perform similar to that of the savings bank and that this is not a part of that function, speaking in a general way?

Mr. Powell. I am quite sure that most of the banks I represent would rather not have their charters changed or their powers enlarged. They will be pretty busy people if they carry on this business successfully, and the two activities do not seem to dovetail. It requires separate capital and separate organization, and if you enter the loan field it is going to require some elasticity in the things that you may lend for. To lend only for crop movements and that sort of thing, you have your money idle a great part of the time.

Representative Ten Eyck. And in addition to that it would mean that sooner or later the farmer would demand that you become a depository, so that he could borrow back his own money at least?

Mr. Powell. You see, there we would be entering the field of commercial banking. I think the better place to do that sort of business would be through the commercial banks.

Representative Ten Eyck. The national and State banks?

Mr. Powell. The national and State banks. They are the legitimate instruments through which to perform that kind of service.

Representative Ten Eyck. We have got to give this additional time to the farmer, and I agree with you thoroughly. The reason why I brought that up is that it was suggested the other way, that the Federal land bank take on these loans of intermediate credit. We have got to give this additional time to the farmer, and I believe it is up to the national banks and the State banks and the Government and the States, to make laws to see that that is carried through.

Mr. Powell. I think that is true. But the instruments through which to do it are the instruments that receive deposits——

Representative Ten Eyck. That are now in existence?

Mr. Powell. That are now in existence; yes. I think that is true.

Mr. Powell. If the commission will permit, I would like to place in the record a table showing the amounts and purposes to which loans made by the joint-stock land banks were placed, covering the period of operation to January 1, 1920, being a statement similar to

one filed with the Senate Committee on Banking and Currency. The statement is as follows:

JOINT-STOCK LAND BANKS.

[A statement filed with the Senate Committee on Banking and Currency Jan. 10, 1920, and published in the report of the hearings of that committee on Senate bill 3109 (p. 58, Exhibit H).]

Table showing purposes for which joint-stock land bank loans have been made from organization to January 1, 1290.

Name of joint stock land bank.	Farmers buying first hand.	Buying additional land.	Improvements.	To pay existing indebtedness.
Virginian, Charleston	$225,000	$300,000	$450,000	$525,000
Union, Richmond	337,700	101,700	182,300	389,000
Iowa, Sioux City	297,400	234,000	136,400	768,900
First, Fort Wayne	423,550	126,450	13,200	326,300
Colonial, Norfolk	117,300	99,600	32,000	961,473
Guarantee, Wichita	293,800	182,000	97,135	475,065
Fremont, Fremont	500,000	700,000	100,000	3,000,000
Arkansas, Memphis	42,000	142,000	122,000	383,200
Mississippi, Memphis	28,000	118,000	169,000	401,800
Liberty, Salina	1,836,410	889,000	840,000	3,100,000
Peters, Omaha	778,000	651,000	41,400	103,800
First, Minneapolis	432,250	62,100	115,450	553,000
La Fayette, La Fayette	176,800	354,500	....	339,700
Fletcher, Indianapolis	546,350	378,550	28,000	73,100
Montana, Helena	312,000	196,000	77,000	1,500,000
San Antonio, San Antonio	500,000	1,000,000	....	2,000,000
Central Iowa, Des Moines	227,100	946,500	253,600	342,500
First, Chicago	2,400,000	1,200,000	900,000	1,500,000
Bankers, Milwaukee	800,000	856,030	550,748	781,172
Des Moines, Des Moines	405,500	1,325,000	....	2,426,675
Lincoln, Lincoln	1,640,700	1,128,860	87,184	1,154,431
California, San Francisco	272,000	60,000	85,000	420,000
South Minnesota, Redwood Falls	1,200,000	170,000	82,000	867,000
First, Houston	137,000	138,000	52,000	808,000
Total	14,035,160	11,359,290	4,414,417	23,200,116

Pending application for loans: Amount of loans committed by all banks to be closed March 1, 1920, $54,200,000. The applications for these loans have all been approved.

I would also like to place in the record the statement prepared showing more completely the operations of the joint-stock land banks. That statement is as follows:

Statement prepared from the records of the Farm Loan Board, showing gross income, deductions from income, expenses, etc., of the joint-stock land banks from organization to Mar. 31, 1921.

Joint-stock land bank and location.	Date chartered.	Number of months operating at Mar. 31, 1921.	Gross income from organization to Mar. 31, 1921.	Deductions from income (farm-loan bond interest, etc.).	Expenses to Mar. 31, 1921.	Dividends paid to Mar. 31, 1921.	Carried to reserve account to Mar. 31, 1921.	Undivided profits Mar. 31, 1921.	Average rate, profit per annum.	Excess of expenses over earnings, Mar. 31, 1921.	Average rate, loss per annum.
									P. ct.		P. ct.
Iowa joint-stock land bank, of Sioux City, Iowa	Apr. 24, 1917	47	$316,332.62	$184,736.20	$40,022.31	$41,250.00	$22,068.07	$28,256.04	8.3		
Virginian joint-stock land bank, of Charleston, W. Va	May 7, 1917	46	563,058.53	340,854.43	153,632.99	40,000.00	17,073.01	11,498.01	7.2		
Fletcher joint-stock land bank, of Indianapolis, Ind	June 28, 1917	45	679,409.99	575,661.27	92,852.67			10,896.05	1.0		
First joint-stock land bank, of Chicago, Ill	July 25, 1917	44	2,272,372.12	1,819,944.19	171,627.19	172,674.00	80,000.00	28,126.74	10.2		
Liberty joint-stock land bank, of Salina, Kans	Jan. 9, 1918	38	1,032,383.57	816,514.01	68,908.83	88,020.83	36,227.05	22,712.85	11.1		
Mississippi joint-stock land bank, of Memphis, Tenn	June 22, 1918	33	142,642.38	96,700.19	17,296.39			28,645.80	4.2		
Arkansas joint-stock land bank, of Memphis, Tenn	June 22, 1918	33	113,588.86	75,574.66	15,831.53			22,182.67	3.2		
Lincoln joint-stock land bank, of Lincoln, Nebr	July 12, 1918	32	1,034,834.41	808,324.77	145,179.82	54,729.00	18,620.82	7,980.00	7.0		
Bankers' joint-stock land bank, of Milwaukee, Wis	Sept. 6, 1918	30	502,254.71	310,714.53	173,119.25	12,500.00	5,000.00	920.92	2.9		
First joint-stock land bank, of Fort Wayne, Ind	Dec. 20, 1918	27	180,672.82	135,533.81	28,358.75			16,780.26	2.9		
First joint-stock land bank, of Minneapolis, Minn	Jan. 14, 1919	26	195,120.91	135,744.90	49,963.19		1,200.00	8,212.82	1.7		
Illinois joint-stock land bank, of Monticello, Ill	Jan. 24, 1919	26	271,894.21	198,723.37	56,522.81	10,000.00	4,000.00	2,648.03	3.1		
Montana joint-stock land bank, of Helena, Mont	Apr. 15, 1919	23	107,090.65	74,974.54	51,443.14					19,327.03	4.0
Fremont joint-stock land bank, of Fremont, Nebr	Apr. 17, 1919	23	204,780.97	154,176.62	43,925.85			6,678.50	1.3		
Des Moines joint-stock land bank of Des Moines, Iowa	Apr. 22, 1919	23	172,972.71	150,738.95	35,081.40					12,847.64	2.7
First Texas joint-stock land bank, of Houston, Tex	Apr. 23, 1919	23	183,171.51	141,820.77	27,002.65			14,348.09	3.0		
Central Iowa joint-stock land bank, of Des Moines, Iowa	May 15, 1919	22	131,224.68	114,534.78	27,453.99					10,764.39	2.8
Virginia-Carolina joint-stock land bank, of Norfolk, Va	June 11, 1919	21	55,395.10	32,347.14	20,084.49			2,963.47	.6		
Southern-Minnesota joint-stock land bank, of Redwood Falls, Minn	June 25, 1919	21	248,238.31	229,161.83	27,955.33					8,878.85	[illegible]

Dallas joint-stock land bank, of Dallas Tex.	July 3, 1919	20	202,272.20	163,793.08	76,320.46					37,841.34	9.0
San Antonio joint-stock land bank, of San Antonio, Tex.	Sept. 15, 1919	19	93,674.16	61,822.28	46,489.04					14,637.16	3.7
California joint-stock land bank, of San Francisco, Calif.	Sept. 19, 1919	19	115,104.89	59,307.66	40,196.76			15,600.47	3.9		
Lafayette joint-stock bank, of Lafayette, Ind.	Oct. 1, 1919	18	96,519.85	66,646.47	13,181.78			16,691.60	4.4		

Net profit per annum on average capital invested by all joint-stock land banks amounts to 2.3 per cent.

The CHAIRMAN. We are very much obliged to you, Mr. Powell.

Mr. POWELL. I am very much obliged to the committee.

The CHAIRMAN. The committee will take a recess until 10 o'clock to-morrow morning.

(Thereupon, at 3.35 o'clock p. m., the committee adjourned to meet at 10 o'clock to-morrow, Friday, August 19, 1921.)

AGRICULTURAL INQUIRY.

FRIDAY, AUGUST 19, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met at 10 o'clock a. m. pursuant to adjournment on yesterday, in room 70, the Capitol, Hon. Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. We will hear Mr. Kamper this morning. Mr. Kamper, give your full name, address, and whom you represent to the official reporter for the benefit of the record, and also for the benefit of the members of the commission.

STATEMENT OF MR. F. E. KAMPER, 492 PEACHTREE STREET, ATLANTA, GA., PRESIDENT NATIONAL RETAIL GROCERS' ASSOCIATION.

Mr. KAMPER. Mr. Chairman, the retail grocers appreciate this opportunity of appearing before your commission, and I shall try to go into any matters that I may know about and will also try to answer as far as I can any questions any member of the commission may want to ask and will answer as frankly as possible.

I would like to say that in addition to being an officer in the Association of Retail Grocers I am a practical grocer and have been in the business for 20 years, and for the last number of years have been doing an annual business of a million dollars.

The CHAIRMAN. What is the name of your firm?

Mr. KAMPER. C. J. Kamper Grocery Co. I am the second son of my father, who was originally from New York. He has been in business for 40 years. We operate a complete service store and endeavor to give our customers every service consistent with good business policy, which includes giving them credit, and carrying accounts, and soliciting a part of the business, and conducting the business on a high plane throughout.

During the Food Administration I worked with the Food Administrator until Mr. Hoover disbanded the organization. Then the work was taken under the control of the Attorney General, who appointed a man named Mr. John Manget, a man who would not treat me as a gentleman, and whom I could not deal with, and therefore I resigned.

It was my pleasure while with the Food Administration to visit Mr. Hoover and Mr. Whitmarsh, and to act in full cooperation with the Food Administration generally.

I did not want to go into personal matters except to show what my opportunities have been for knowing the retail grocery business.

My own experience has been that we do 22 per cent cash and 78 per cent credit business. And my own personal experience has been that where a man is doing a credit business—and I do not know whether my figures will apply to the average retail grocer or not, but a man doing a credit business as we have been doing it, taking precautions to safeguard himself in extending credit to customers, does not run any large risk from a capital standpoint outside, say, of the capital invested in credits.

The CHAIRMAN. You do a million dollars worth of business a year. How much of that amount of business do you carry on your books, approximately?

Mr. KAMPER. We carry on our books an average of about $52,000 to $62,000. Our losses average less than one-quarter of 1 per cent, and that has been our average for the past 20 years. We frequently run an average of less than one-eighth of 1 per cent, but I will put the general average at less than one-quarter of 1 per cent.

The CHAIRMAN. Do you think your experience is typical of the business as a whole?

Mr. KAMPER. In the case of good merchants I think that is carried out. I can substantiate those figures from Harvard's Business Research, which is the only authority we have. There are several competitors to that authority, but I can go into that matter if you wish.

However, in the conduct of our own particular business in trying to carry out Mr. Hoover's idea to save man power during the war, we did two or three things which if considered from a business or a psychological standpoint—and I use the term synonymously in this respect—were really very bad business. At a meeting in Mr. Hoover's office, with Mr. Whitmarsh presiding and Mr. Heinz, the food administrator of the State of Pennsylvania, as the principal proponent of the idea, together with some persons from a certain town in New York, the proposition was advanced to restrict the size of an order for service, and to make to the customer a service charge of 5 cents or 10 cents, as might be determined upon.

The idea back of that proposition was that the boys who were employed to make deliveries might be saved for service in the Army or the Navy and other necessary work of carrying on Government operations. We tried out that plan and it had the effect of penalizing the customer for service; and as the members of this commission well understand, whether right or wrong, when you penalize anybody it is human nature that he is going to rebel.

The CHAIRMAN. Let me see if I understand that: The proposition was not to allow the delivery of small orders, was it?

Mr. KAMPER. To limit the size of an order which should have delivery service to 50 cents or a dollar. The figure most commonly used was 50 cents, and that no order would be delivered that amounted to less than 50 cents. And on top of that the customer had to pay an additional 5 cents or 10 cents as a service charge.

We operated that plan for six months, and found that one of our competitors, located about a mile and a half from us, was taking advantage of us, because he was not compelled to cooperate with the Food Administration. It was all voluntary. After we put on the

additional service charge it looked like he was going to get all the business, for the people wanted that service. Something had to be done by us to meet that competition. So, after going through our auditor's reports for a six months' period, we evolved the plan to encourage the customer to come and get her goods. We first determined that our cost for delivery of goods amounted, approximately, to 3 cents on the dollar's worth of goods delivered, and probably at that time the delivery service represented 8 cents per stop for deliveries, which has later crept up to 13 cents per delivery. We thought we could afford to give our customers something if they would come and get their goods.

Of course at that time we were able to take advantage of the propaganda coming out of Washington about rendering service. There was sent out from Washington during the term of the Food Administration, I think solely for the purpose, without any other motive in mind but solely for the purpose of conserving the man power of the Nation, as much publicity as possible for the cash and carry plan. The amount of business done by cash and carry stores in 1913 amounted to less than 5 per cent of the total volume of business done, but probably now amounts to around 17 per cent, judging by the best figures I can get.

But to meet the situation I mentioned we evolved the plan of issuing coupons to our customers. They were marked "Cash and carry coupons." If a customer came in and purchased a dollar's worth of goods we would give her a dollar coupon. On the face of the coupon it was stated that $10 worth of the coupons would entitle the holder to a refund of 30 cents in cash. In other words, we figured we could give a customer who paid cash and carried her goods 3 cents on the dollar.

We carried that out until July of this year, when, owing to a decrease in cost of equipment and of that class of help, of delivery boys, we made this rebate or cash refund amount to 2 cents on the dollar of purchases, and raised the sum of the tickets that have to be presented at any one time in order to get the cash refund, to $25. The only idea in raising that limit from $10 to $25 was to make it worth while, first, for the customer to come back and get the coupon; and, in the second place, to minimize the cost of handling those coupons in our own office.

Ever since we have been in business, for business reasons, we have been giving a 2 per cent cash rebate to our customers for cash purchases, so we follow the plan of giving our customers who purchase for cash and carry their own goods a saving of 4 per cent. However, our prices for goods to all customers are the same.

The CHAIRMAN. That is to say, you allow 2 per cent for delivery and 2 per cent for cash?

Mr. KAMPER. Yes, sir. It has proved satisfactory to us. When the slump came—and, by the way, the slump in the retail grocery business did not come at the same time it did in the wholesale grocery business. That is the natural law—that the retail business will not immediately decrease when the wholesale business does, nor will it increase immediately when the wholesale business does. But I expect to bring that matter out a little later and more fully.

When the slump came with us last year, by doubling our advertising appropriation we managed to keep our business ahead of our

previous record in dollars and cents; it actually amounts to an increase in business of 60 per cent in tonnage. Of course there is an end to that, because I imagine we will some time reach the point of efficiency so far as our organization is concerned and so far as our customers' ability to purchase is concerned, but so far this year we are about 10 per cent or 12 per cent ahead of last year on the dollar of sales.

That enabled us to do something very gratifying from an organization standpoint; we have been able to keep our organization together, and did not cut salaries until the 1st of July. Most organizations had to put in a cut in salaries the first of the year or soon afterwards.

The CHAIRMAN. Could you give us any idea of the reduction in prices represented in inventory costs?

Mr. KAMPER. The only figure I can give you is the figure that is published by the Bureau of Labor Statistics. I believe wholesale prices have declined 48.3 per cent. I may be in error a few mills on that.

As far as I have been able to get from retail prices there are two things happening, so far as consumers are concerned. I have to make a distinction there because there is a certain class of people who live so close to the bread line all the time they have to be separated from those with sufficient income who can and do purchase in a different manner. Those who have an income are living a great deal better than they have been able to live for the last seven years.

The CHAIRMAN. That would mean, I take it, that instead of reducing the actual cost of living in the sense of the total amount spent by the family for food and clothing, they are buying more but at lower prices?

Mr. KAMPER. Yes, sir. They are, also, in a great many instances actually reducing their total bills. I have in mind at this time one family that has traded with us, consisting of husband and wife and I think five children at home now, and up to a year ago there were seven children at home, and who have three servants. They buy practically all their provisions from us and have done it consistently regardless of any allurements or efforts made by any other merchants. This man's bill is averaging $85 to $102 a month. His bill 12 months ago averaged $112 to $150 a month. Yet I know that man is serving frying chickens of the most expensive sort on his table at least once a week. During the war he never had any frying chickens as far as I am able to learn.

Answering your question further, Mr. Chairman, in reference to the man who has an income just barely sufficient to take care of his living expenses, there have been a number of very valuable advertisements published throughout the country on this question of cost a year ago and cost at this time. I would like to get this one, published by H. C. White & Co., retail grocers, Cambridge, Ohio, in the record. This is an article written in June, and I will read it:

Prices down? Just look 'em over.

This is the story of how H. C. White & Co., retail grocers of Cambridge, Ohio, forcefully proved to the people of Cambridge that the cost of living so far as food products are concerned has been tremendously reduced in the last 12 months. They had a window display showing on one side 100 pounds of sugar and a bushel of potatoes, with a card above indicating that a year ago the cost of those two items was $38.

On the other side they also had 100 pounds of sugar and a bushel of potatoes, together with the other 21 items listed below. Above this merchandise they had another card, showing that to-day $38, which a year ago would only have bought the sugar and potatoes, would also buy the additional 21 items. This card further stated that this list of merchandise one year ago would have cost $75.36, a difference of $37.36, or a decline of 49½ per cent.

If that figure is typical of the retail business it shows that retail prices have declined even more than wholesale prices, because wholesale prices have declined only 48.3 per cent. [Continuing reading:]

Here is how the arrangement appeared:

One year ago you paid $38 for 100 pounds of sugar and one bushel of potatoes:

100 pounds sugar	$32
1 bushel potatoes	6
Total	38

On to-day's market the regular retail price of the following list of groceries is $38.

100 pounds sugar	$10

To-day that has declined to a still lower point. [Continuing reading:]

1 bushel potatoes	$1.35

That is to-day up some.

50 pounds Peerless flour	$3.20

To-day you can buy 50 pounds for $2.50.

50 pounds Ceresota flour	$3.50

I do not know what that is. [Continuing reading:]

6 pounds Richelieu coffee	$2.10
5 cans Richelieu tomatoes	1.25

To-day you can buy those same tomatoes for a dollar or less, or it may be the market is advancing from the low point of about June. [Continuing reading:]

5 1-pound cans salmon	$1.25

I do not know whether that refers to pink or red salmon, but if it refers to pink salmon you can buy it anywhere to-day at 15 cents a can. The market, however, is advancing. [Continuing reading:]

5 cans Rich. baked beans	$1.00

If that is the 1-pound can, it may be bought anywhere to-day for 15 cents. [Continuing reading:]

6 small Rich. oats	$0.90

You can buy Quaker Oats at 12½ cents a package. [Continuing reading:]

10 pounds navy beans	$0.70
10 pounds rice	1.00

If it is Blue Rose rice the retail price to-day averages around 6½ cents a pound. [Continuing reading:]

10 pounds lima beans	$1.25
5 cans Rich. corn	1.25
5 cans Rich. peas	1.25
3 cans No. 3 peaches	1.35
3 cans No. 3 hominy	.45
3 cans No. 3 cherries	1.65
3 boxes macaroni	.50

I do not know what size package of macaroni is referred to, but if it is the ordinary commercial size it is cheaper today. [Continuing reading:]

3 boxes spaghetti	$0.50
12 bars soap	1.00
2 large boxes Rich. oats	.90
3 pounds Rich. raisins	1.05

I am glad to say they have been reduced to 25 cents a pound within the last week. [Continuing reading:]

½ pound orange Pekoe tea	$0.60
Total	38.00

The above list would have retailed one year ago for $75.36, a difference of $37.36, or a decline of 49½ per cent.

Question: Has the high cost of living come down?

I would like to make this statement also, that while I do not know the firm, these goods represent the highest quality of goods you can make a comparison with. In other words, this firm has not made a comparison by going out and grabbing distressed stuff or the cheapest stuff they could get on the market.

Representative MILLS. Do you contend that retail prices have dropped as much as wholesale prices?

Mr. KAMPER. Yes, sir.

Representative MILLS. None of the statistics published bear you out, do they?

Mr. KAMPER. I think they do, if you will bear in mind this one fact, and I will have to take a little time to explain the situation: If you will examine Bulletin 270, of Bureau of Labor Statistics, I think marked "Retail prices," you will note that from 1913 down through December, 1919—and that is as late as they have published them in comparative form—the increase in farm products was larger than the increase in retail prices. It also occurs, if you want to make a comparison with wholesale and retail prices, a little slower in the retail market than in the wholesale market—the increase was.

Representative MILLS. I understand that.

Mr. KAMPER. If you make a comparison on a declining market you must give due allowance for the goods to travel from the wholesaler to the retailer—due allowance for distribution. You will find that these figures bear that out, and I think you will find these figures are literally true. But if you take a comparison of the wholesale price as of July 1 with the retail price of July 1 there will be a difference showing the wholesale price has declined more than the retail price, but if you compare the retail price as of August 1 or September 1, giving time for distribution, you will find a very fair comparison.

Representative MILLS. It may be so now, but it was not a few weeks ago, according to the figures of the Department of Labor.

Mr. KAMPER. You must allow for distribution, the time necessary for distribution.

Representative MILLS. Nor is it true as of a few weeks ago, according to any other figures I have seen published.

Mr. KAMPER. I think you will find that is true of foods, and foods have dropped more than any other line of goods. That is really natural, because foods as a rule are more basic and are consumed more nearly in the raw form, and are more susceptible both to the

advancing market and the decreasing market, advancing and decreasing more rapidly than manufactured articles. And in this period of readjustment of business or betterment of business you will find food prices will react.

Representative MILLS. There are many articles of food products that are the same as manufactured products. Isn't that so?

Mr. KAMPER. How do you mean?

Representative MILLS. How does a canned product differ from a manufactured article? The grocer can hold it for an indefinite period of time.

Mr. KAMPER. If he is a good grocer he does not want to do that. The question of turnover is a very vital point, and he has actually to do that if he is a successful grocer. That means whether successful from the standpoint of giving the people goods at a minimum cost or of making money for the man operating the store.

Representative MILLS. Is not it true that there was a much stiffer resistance on the part of retailers, resisting this drop in prices, than on the part of wholesalers or original producers?

Mr. KAMPER. I am not prepared to answer that except from my own experience. You were not present when I made my opening statement, but I am a large merchant in Atlanta, Ga., and am not only in competition with every grocer but every other organization. In order to hold my trade as well as from a good business standpoint when the price of canned peaches was slashed in February by the California Canners' Association, almost immediately, or practically as quickly as a shipment of peaches could be made from California to Atlanta, we cut prices. We took a loss of $12,000 on canned peaches and other fruits, and a loss of $9,000 on sugar. I could not otherwise continue to hold my trade. It was vitally necessary and in line with the motto of my business—to sell goods in line with competition or replacement values.

Representative MILLS. Of course that is all very true, but is it not a fact that that was true of anyone who had any stock on hand at the time the market started to drop? It was perfectly inevitable that he should take a loss. On the other hand, is it not a fact that very many manufacturers and many retailers refused to take that loss and tried to hold up prices?

Mr. KAMPER. That would be perfectly natural, perhaps.

Representative MILLS. I did not ask whether it was natural but whether it did in fact happen.

Mr. KAMPER. The only way I can really answer that question is the way I have answered before, from my own personal experience. There was a great howl in the papers from manufacturers, instigated by the manufacturers as far as I could get it, that the retailers were not responding.

Representative MILLS. As far as I could observe they did not respond for a long time. There was no material relief in the reduction of the high cost of living for a good many months as far as the average citizen was concerned and as far as statistics showed.

Mr. KAMPER. If you give allowance for due process of distribution I think (reductions in prices) that was in fact done. As far as I am able to recall the high point in wholesale prices occurred in May or June of last year, did it not?

Representative MILLS. I believe so.

Mr. KAMPER. And the high point in retail prices occurred in September.

Representative MILLS. It was said to be in August, but I do not know.

Mr. KAMPER. Well, I think it was September.

Representative MILLS. I might be wrong as to that.

Mr. KAMPER. Perhaps so. There was a lapse of three or four months, the natural result of distribution.

Representative MILLS. You saw the report that the Federal Trade Commission made in April to the President, did you not?

Mr. KAMPER. Yes, sir.

Representative MILLS. I am not going to say I agree with their conclusions entirely because I do not; but at that time, when they said retail prices had not only lagged, but had lagged more than they should, that was pretty nearly correct, was it?

Mr. KAMPER. I am not familiar with the details of that report, and only know so far as the operation of my own business is concerned.

Representative MILLS. Where do you come from?

Mr. KAMPER. Atlanta, Ga.

Representative MILLS. You are simply here testifying in your individual capacity and not undertaking to testify otherwise?

Mr. KAMPER. I am trying to testify as far as I know. This is a tremendously big proposition. We are dealing with you might say, 38 per cent of the people's money when you talk about foods.

Representative MILLS. You have an association?

Mr. KAMPER. Yes, sir; I am representing the National Retail Grocers' Association. It is a very pertinent thing, I think, Mr. Chairman, if I may make this remark, and I think that it would be the proper thing to consider what is actually being done now and not what has been done in the past, and for this reason: If you will examine the Food Administration rulings very carefully, you will discover that during the Food Administration a ruling was in effect by a great many individual food administrators that the merchants could not take advantage of the enhancement value, or what we term in merchandizing, replacement value. And if you will examine the records of the Federal courts you will find a great many merchants were prosecuted on the charge that they did take advantage of replacement values, on sugar particularly.

Representative MILLS. What has that got to do with this?

Mr. KAMPER. It has a good deal to do with your question.

Representative MILLS. Why?

Mr. KAMPER. Because the Government did refuse to allow the retailer to take advantage of the enhancement value, and yet whenever there is a decline you want to criticize him because he does not immediately flop over.

Representative MILLS. I do not criticize anyone. I expect him to do what any other human being would expect him to do under the circumstances—to take as small a loss as possible. He tries to take as small a loss as possible by maintaining prices, and while that may be either good or bad judgment in the opinion of some, in my own opinion it was bad judgment. In my opinion I think the retailer would have saved money if he had reduced his prices as rapidly as possible. But he did not do it.

Mr. KAMPER. The better merchants tried to do that very thing.

Representative MILLS. They tried to maintain prices and hung on as long as they could. What I am asking you, whether my theory is correct or not, and my theory is that they tried to hold up prices and hold on as long as they could and they thus delayed the normal course of events, which would have been to have retail prices follow wholesale prices—what I am asking you is whether they acted promptly in reducing prices? They might have delayed three or four months, but in the end they had to yield to the law of economics; is not that true?

Mr. KAMPER. That is true.

Representative MILLS. What I would like to know is, whether they did not successfully delay that process for three or four months?

Mr. KAMPER. The only information we have is the information that the Government has, and I just tried to explain about the natural distribution, the difference between the wholesale end and the retail end, to show you how there would be a natural delay.

Representative MILLS. I know there is a delay. Retail prices, of course, lagged behind wholesale prices. We all know that. But there is a vast difference between a normal lag and what would result from a man hanging on to goods that he had purchased at a high price in order to take as small a loss as possible.

Mr. KAMPER. I can answer you from the Grocers' Association standpoint, that in our monthly bulletin we published an article advising retail grocers to follow the market as soon as the market was in effect; that is, the lower market, pointing out to them that good merchandising demanded that method of procedure. We did everything we could in that way from an association standpoint to assist in this readjustment.

Representative MILLS. When did you first tell them they ought to begin the readjustment?

Mr. KAMPER. As soon as we had the first issue of our magazine.

The CHAIRMAN. I have it here and it does not entirely bear out the conclusion of either one of you gentlemen, apparently. That is to say, in a general statement in reference to lagging retail prices behind wholesale prices it would be subject to a good many modifications if you consider the individual commodities that were concerned in your general average. From the statement I have before me here, apparently there is a wide variation in the lagging of retail prices behind wholesale prices. In many cases retail prices came down earlier than wholesale prices; in other cases they stayed up longer than wholesale prices. I doubt very much if you could reach any general conclusion as to the country as a whole upon the subject which would be very definite.

Representative MILLS. They make up an index number and it has the same value as any other index number. Articles may vary very widely, but on the whole an index number will be as safe in the case of retail prices as an index number is in the case of wholesale prices.

Representative TEN EYCK. I am not so much interested in that, but am interested in how retail prices now compare with prewar prices and present day wholesale prices?

Mr. KAMPER. They are both considerably above prewar prices, taking 1913 as the basis. I think the figure is—well, I do not know just what the figure is, but it is somewhere between 40 per cent and 50 per cent higher than prewar prices.

The CHAIRMAN. I think, perhaps, gentlemen of the commission, we will get along better if we let Mr. Kamper develop the material he has. I think he has some material that will be interesting.

Representative TEN EYCK. I only wanted to bring in at this time, in connection with the past, what the present history is.

The CHAIRMAN. I think Mr. Kamper has that.

Mr. KAMPER. It is a very interesting thing in reference to grocery stores that they are operated at very much less cost of doing business than any other line doing a retail business. I am not making that statement with the idea of making a comparison of our business with any other, but to show that it is an actual fact that they do operate at less cost. Here is a statement gotten out by the Pacific coast railroad lines:

GROCERS' OPERATING COST LOWEST.

The costs of doing business of various lines of retailers are shown by a press dispatch to be:

	Per cent.		Per cent.
Jewelry stores	26.81	Shoe stores	23.23
Furniture stores	26.51	Dry goods stores	23.06
Drug stores	24.65	Hardware stores	20.41
Clothing stores	23.27	Grocery stores	17.91

Representative TEN EYCK. Who was this gotten out by?

Mr. KAMPER. This was issued by the Pacific Coast Railroads. I think possibly it was printed by Barron G. Collier, in regard to advertisements in that section.

Representative MILLS. You do not know how those figures were made up?

Mr. KAMPER. No, sir; I do not. I would like also to bring out another thing that to every merchant is very important. I do not know whether it is important to this commission or not, but it may be a matter of some interest. This is an article published by the Philadelphia Public Ledger showing why sales are lost. I mention this because most people think that price is the only element that has anything to do with what people should pay for their goods or are willing to pay for their goods:

WHY THE SALE WAS LOST.

[From Philadelphia Public Ledger.]

One of the leading retail stores in New York City recently analyzed 192 selling failures in its organization, with the following results:

Indifference of salespeople, sales lost	47
Attempts at substitution, sales lost	18
Errors, sales lost	18
Tricky methods, customers lost	18
Slow deliveries, customers lost	17
Overinsistence of salespeople, customers lost	16
Unnecessary delays in service, customers lost	13
Insolence of employees, sales lost	14
Tactless handling of customers, customers lost	11
Bad arrangements of stock, customers lost	9
Salespeople's ignorance of goods, customers lost	6
Refusal to exchange purchases, customers lost	4
Poor quality of goods, sale lost	1

From this analysis you will note that nearly 25 per cent of the sales were lost on account of indifference of salespeople, 9 per cent on account of errors, and 6 per cent on account of unnecessary delays in service.

I want to get that before you to show that price is not the sole thing or the sole basis of trade.

Now, I am going into the only real authentic basis we have for finding out what it actually costs to conduct grocery stores—I would like to inject that here—which we get from the old country; that is, from England. I would like to have you bear this matter in mind, one of these reports which I will read being from England, and I trust I will not weary you. The only basis that we have for finding out about the conduct of grocery stores is the question of competency of the retail merchant. To my mind, as a retail merchant and a man who is proud of his business and considers it as much a profession as any other professional man would, it is a sad fact that it is so easy for a man to get into the grocery business—and it is just about as easy to get out. Any man who has made a failure at law or medicine or railroading or telegraphing or anything else may get together a few hundred dollars and he will attempt to go into the grocery business. If there were some means, either through State or national law, by which an applicant for a license as a retail grocer could be examined as to his mental capacity, his business capacity, if we could have a licensing system along that line, I think it would be worth while. Whether we will ever see that day in free America I do not know. I am told by competent men I am dreaming when I think of such a thing. I may be, but I might remind such that so-called "dreamers" very frequently precede realization.

Really the only authentic source of cost of operating retail stores, in my opinion, is the work that has been done by the graduate school of business research, Harvard University. They have been doing this work since 1914, up to last year, and on account of hard times and lack of funds they have ceased doing it at this time. But before going into the report of the Harvard bureau I want to make mention of a report gotten out by the Nebraska University, I think it was—anyhow it was an investigation at Fargo, N. Dak.—which has been quoted by some of the papers, wherein they said that there were 50 grocery stores in the town of Fargo, and that if 30 of those stores were eliminated the 20 remaining would be able to carry on the necessary amount of business, and that they could operate on an expense account of 7.66 per cent on the selling price. I am bringing that statement out because I want to bring it in contrast and disprove it by the report of the Harvard Bureau of Business Research, which is the only thing we have any consecutive thought on.

Here is another thing to be taken into consideration in connection with that report, which I think was made by some college men: You have got to consider the people to whom you are going to sell goods. In other words, you can not corral them all in one place and say to them: "You have got to buy your goods in this way, from a certain place." You can not do that. Naturally a merchant has to supply persons with goods as they want them, when they want them, and as nearly as possible in the shape they want them. That means service, and that service has to be charged for.

We have another report—and I think I am fair in stating an incomplete survey—made by the agricultural experiment station at Madison, Wis.

It is very interesting, because a great many recommendations are made by these men which are rather startling. Some original in-

formation has gone into the retail grocery business. And I imagine that a great many of them are rather practical. That is the unfortunate thing about most of us, if we do not know anything about the other fellow's business, we are very apt to say something about his business which we can not back up by previous experience.

But this report is Bulletin No. 324, of January, 1921, entitled "What the Retailer does with the Consumer's Dollar."

Mr. Chairman, I don't know whether you want me to go into details, or not. It is rather interesting. There are original methods of making his comparisons and analyses.

The CHAIRMAN. We have a copy of that here. If there is anything you want to comment on, I suggest that you do that.

Mr. KAMPER. Yes; there is one point here that I want to make some comment upon. In the first place, this report brings out that there is no profiteering among the retailers at Madison, Wis. That report was substantiated practically all over the United States by all the men who were competent to judge.

Now, there is a table here of margins received by retailers on various commodities in 1919. We have not that brought down to date. They have a column showing the usual margin, one showing the highest margin, and one showing the lowest margin. On cream the usual margin was 8 per cent, the highest margin 20 per cent, the lowest margin 8 per cent. On butter the usual margin was from 7 to 10 per cent, the highest margin 10 per cent, the lowest margin 3 per cent.

On flour the usual margin was from 7 to 10 per cent, the highest margin 15 per cent, the lowest margin 3 per cent. On eggs the usual margin was from 8 to 13 per cent, the highest margin 18 per cent, the lowest margin 4 per cent. On soap the usual margin was from 10 to 15 per cent, the highest margin 20 per cent, the lowest margin 7 per cent. On oleo the usual margin was from 11 to 15 per cent, the highest margin 38 per cent, the lowest margin 9 per cent. On fruit the usual margin was from 10 to 20 per cent, the highest margin 35 per cent, the lowest margin 8 per cent. On bread—this is vital—the usual margin was from 10 to 20 per cent, the highest margin 24 per cent, the lowest margin 7 per cent. On lard the usual margin was from 15 to 20 per cent, the highest margin 25 per cent, the lowest margin 9 per cent. On cereals the usual margin was from 10 to 23 per cent, the highest margin 25 per cent, the lowest margin 5 per cent. On cheese the usual margin was 20 per cent, the highest margin 25 per cent, the lowest margin 5 per cent. On coffee the usual margin was 20 per cent, the highest margin 30 per cent, the lowest margin 9 per cent. On meats, canned, the usual margin was 20 per cent, the highest margin 33 per cent, the lowest margin 12 per cent. On meats, fresh, the usual margin was 20 per cent, the highest margin 25 per cent, the lowest margin 17 per cent. On bottled goods the usual margin was from 20 to 25 per cent, the highest margin 35 per cent, the lowest margin 10 per cent. On canned goods the usual margin was from 20 to 25 per cent, the highest margin 33 per cent, the lowest margin 12 per cent. On cookies the usual margin was from 20 to 25 per cent, the highest margin 30 per cent, the lowest margin 5 per cent. On tea the usual margin was 20 to 25 per cent, the highest margin 40 per cent, the lowest margin 15 per cent. And on candy the usual margin was 25 per cent, the highest margin 40 per cent, the lowest margin 20 per cent.

Representative TEN EYCK. Are those gross or net?

Mr. KAMPER. These are gross.

Representative MILLS. What is the average?

Mr. KAMPER. He has not averaged them in this figure. He simply says the usual margin ranges from a certain per cent to another certain per cent. He says in the closing sentence of the paragraph:

> The usual margins received ranged from 7 to 25 per cent, depending upon the various conditions or characteristics, some of which have been noted.

Representative TEN EYCK. What is the groceryman's overhead, expressed in per cent of cost of operation?

Mr. KAMPER. There are two classes; it varies from 25.3 per cent down to—the Harvard University bureau says to about 14 per cent.

Representative TEN EYCK. How can the groceryman live under those conditions?

Mr. KAMPER. He can not live under those conditions. Of the men who enter the grocery business 5 per cent of them are successful, 15 per cent stagger along on the ragged edge, and 80 per cent go out of business within seven years.

Representative TEN EYCK. These gross margins that you have read, are they taken from successful grocers, or unsuccessful grocers?

Mr. KAMPER. I am not prepared to answer that; I am simply reading his report of the stores the investigator found in Madison, Wis.

Representative MILLS. Well, is there not something wrong about a system of that kind?

Mr. KAMPER. It can be improved. There is no standard by which we can proceed.

Representative MILLS. With 80 per cent of the men in the business staggering along toward inevitable failure, who is carrying the cost of that?

Mr. KAMPER. The general public is carrying the cost of the 80 per cent of failures. That is distributed very broadly, however.

Representative MILLS. Yes; I understand. But that shows that there is something wrong, does it not?

Mr. KAMPER. That backs up my statement I made awhile ago that if we had some method of finding out whether a man is competent before he is allowed to enter the business it would help considerably.

Now, here is a thing occurring and which is very, very important: That is the question of how to figure costs. I believe you will find in a good many schools and schoolbooks that they actually give examples to children saying something like this: If a merchant pays $5 for an umbrella and sells it for $7, please tell how much profit that man has made, in percentage. And I think they figure almost invariably upon the cost price of the article alone, and that is wrong, because his percentage depends upon the cost price, plus the cost of merchandising, and his only profit is the selling price of the article, less the cost of the article and the expenses of merchandising. In other words, he has to make his expenses on the selling price, or the amount that he can sell for. I think that is a fundamental question that we need to develop very carefully in merchandising. I think that is where a majority of the men who engaged in business go broke. I think a majority of the salesmen who go out on the road to sell goods make their talk on that calculation, and will tell a merchant that is the way to figure his cost of merchandising. And if a salesman does

tell a man that, he is leading that man into bankruptcy just as sure as fate.

Here is another thing to be developed from research, something which interests a great many people. I know they are interested, because people will come into my store—a lady, who is interested in the enterprise, will come into my store and say, "Mr. Kamper, we are going to have a little church festival out here, and I came in to get some help from you. I am a good customer of yours, and I want you to give me a donation for the festival." And she will want me to give her $10 or $15 worth of goods. She is making her plea because she is a good customer of mine. If I look at her and say, "Yes, you are a good customer of mine; you spend $50 a month with me; that is $600 a year, but I make only $18 out of you for that year's business." In other words, I am operating for a 3 per cent net margin. That is all I get out of my business, and any merchant who is running his business on the right basis and is getting 3 per cent is doing a wonderful business. When I say a wonderful business, I mean that he is watching his turnover, and watching his business to make all he can. We strive to get 5 per cent, but we can not make it. The Harvard bureau will say that the average is 2 per cent. But I am running a pretty big business, and yet I am able to make but 3 per cent in my sales.

Representative MILLS. But that does not tell the whole story, because you can turn your capital over fast enough to make a good profit.

Mr. KAMPER. Yes; and that is the reason why we are satisfied with 3 per cent.

Representative MILLS. For instance, the packers say they make 1 per cent, and yet they are generally held up to the public as being profiteers, if they make 1 per cent.

Representative TEN EYCK. They have 14 turnovers.

Mr. KAMPER. I was much interested in the statements of my banker, who is a friend of mine from Mississippi. He has known me ever since I was a small boy, and when I went in one day he said to me, "Kamper, you are simply crazy if you think you are going to operate on a 3 per cent margin." He is a banker and an ex-country merchant.

Here is an interesting thing about these stores in Madison. He has grouped them according to size. There are 79 stores, and he has grouped them according to size, and there are 8 stores under $10,000, and the aggregate sales are $33,563.28, and the average sales per store were $4,195; per cent of stores, 10.1; per cent of aggregate sales, 1 per cent. There were 19 stores of from $10,000 to $20,000, with aggregate sales of $250,864.19; average sales per store, $13,203; per cent of stores, 24 per cent; per cent of aggregate sales, 7.5. There were 11 stores of from $20,000 to $30,000, with aggregate sales of $262,402.97; average sales per store, $23,855; per cent of stores, 14 per cent; per cent of aggregate sales, 7.9. There were 11 stores of from $30,000 to $40,000, with aggregate sales of $383,991.61; average sales per store, $34,908; per cent of stores, 14 per cent; per cent of aggregate sales, 11.5 per cent. There were 14 stores of from $40,000 to $50,000, with aggregate sales of $618,840.05; average sales per store, $44,203; per cent of stores, 17.7 per cent; per cent of aggregate sales, 18.6 per cent. There were 6 stores of from $50,000

to $60,000, with aggregate sales of $316,651.85; average sales per store, $52,775; per cent of stores, 7.6 per cent; per cent of aggregate sales, 9.5 per cent. There were 5 stores of from $60,000 to $100,000, with aggregate sales of $359,312.58; average sales per store, $71,862; per cent of stores, 6.3 per cent; per cent of aggregate sales, 10.8 per cent. There were 5 stores of $100,000 and over, with aggregate sales of $1,101,270.37; average sales per store, $220,254; per cent of stores, 6.3 per cent; per cent of aggregate sales, 33.2 per cent. The total volume of business was $3,326,896.90.

The five stores of $100,000 and over did a business of $1,101,270.37 as against a total volume of business in this town of $3,326,896.90. And from this statement he has arrived at the conclusion that the larger stores have lower costs of operation.

Now, I am bringing that point out, because the Harvard University's conclusion, based on a study of seven years, is exactly to the contrary; their conclusion is that the small store, well conducted, operates more economically.

Representative TEN EYCK. What was the average overhead of the stores that operate more economically?

Mr. KAMPER. The Harvard University stores?

Representative TEN EYCK. Yes.

Mr. KAMPER. I will have to bring that out just as I come to it.

Representative TEN EYCK. Very well.

Mr. KAMPER. Now, here is a very important point, generally, bearing on the question of turnover. All of you know that if a manufacturer—it does not make any difference whether he has 1 employee or 100 employees—can keep his factory running and his organization going continuously at a steady stream, he is running his factory and operating it more economically and more efficiently, and will keep it better organized than if he runs with a big splurge during the first part of the month and then shuts down for the balance of the month. It is a question of efficient handling. This man brings this out in this study. [Reading:]

The size of the retailer's balance is in reality a reward for his efficiency. Competition is keen indeed. Among 30 stores studied, 8 lost amounts ranging from $200 to $1,921, while some made balances around $3,000. Those who made money and those who made the highest profits sold goods of the same quality for practically the same prices. The losses were directly the result of either small size of business causing excessive costs due to inefficiency, or to inability to purchase supplies or products in accordance with the needs of the business.

It is the economic duty of private middlemen to buy as cheaply as they can and to sell at the highest prices obtainable under fair competition. This is true regardless of the price which the retailers may have to pay for the products. The man who can buy cheaply is just as much entitled to sell at the current consumer price—

This is something the Food Administration did not allow us to do. [Continuing reading:]

as are those who were obliged to pay excessive prices for their goods. That the prices which consumers pay retailers rise relatively high at times is proof of a shortage of supply so far as either the retailer or the consumer is concerned.

Now, to my mind this is the milk in the coconut. [Continuing reading:]

The middleman who pays more for supplies than competitive conditions require, or sells to consumers for less than the market situation justifies, is manipulating economic conditions to the detriment of both producers and consumers. On the consumer side, when prices are lower than can be obtained the low prices artificially

register a sufficient supply, when in reality there is not. The result is that producers are paid lower prices. In turn, lower prices reduce supply, to the detriment of both consumers and producers. On the contrary, when more is paid for products than is necessary, the high prices artificially register a shortage in supply when in reality there is no shortage. Moreover, high prices encourage production when it is not needed. This leads to oversupply, with falling prices to producers as a result. To avoid such manipulation it is necessary that all retailers buy at as low prices as competition permits and sell for as high prices as competitors receive.

Then he goes on with another paragraph, entitled "Monopolists are the only profiteers." There are certain people who are much interested in that.

And he brings in another paragraph on "Causes of inefficiency in retail system." I suppose you would like to hear that. [Reading:]

The distribution of Madison's food supply is now accomplished by so many retailers that the average ones do too small a business. Altogether too large a number are inexcusably small. The small retailer can not buy efficiently. Because more than two-fifths of the food supply of Madison is purchased by exceedingly small concerns, competition is regulated by retailers who are inefficient buyers. The two chief weaknesses of the present retail system are that the costs of operating small stores are greater than those of large stores and that small size prevents efficient buying.

The public tends to assume that price cutting is the secret of doing business successfully. This is a practice, however, of small and inefficient storekeepers only. Yet, in spite of frequently selling special articles at cut prices, numerous stores which do this obtain no smaller annual margins than do large stores. The reductions of margin on some articles are usually balanced by higher margins on goods that are not advertised or sold as specialties. To buy at the lowest possible prices and to sell at the highest prices obtainable, consistent with efficient performance of retail services, leads every efficient store manager to solicit business, not by price cutting, but by proving to customers that they secure more for their money at one place than at another. Public welfare demands larger volume of products per store.

There are two current ideals of business. One is based on maximum sales at lowest margins to secure similar aggregate profits; the other is based on minimum sales at maximum margins. The former is more in keeping with public interest. The large store can buy cheaply enough to make a profit when the small store is losing money. Moreover, the large store can study and find means of reducing costs which the small concern can not do. This is so because small stores make insufficient money to pay even proper wages, without hiring experts. To assume, therefore, that large stores will voluntarily reduce prices in order to drive smaller stores from the field is not generally in keeping with retail-store customs and practice.

Under present conditions, therefore, margins received by retailers are regulated generally by the width of margin required to keep the small, inefficient store in business. This is unfortunate because the small store, as such, has not the funds with which to pay for management which will take the initiative in improving retail conditions. It is powerless actively to stimulate conditions among the retailers of the city which will generally result in, first, creating greater efficiency in buying; second, reducing operating expenses; and third, reducing margins. Neither can these small stores bring about needed improvements of a strictly trade character, as, for example, standardized accounting, systematized and unified deliveries, uniform credit systems, and other desirable features.

I will not go on and take up a lot of your time on that.

Representative TEN EYCK. Have you any information in relation to the relative bearing of overhead to the capitalization of the store and to its business?

Mr. KAMPER. Yes; I can give you that very concretely.

Representative TEN EYCK. In other words, I would like to find how the overhead in the smaller grocery store compares with the overhead in the larger grocery store.

Mr. KAMPER. I have some bulletins here that are very enlightening on those subjects. This is a bulletin entitled "Expenses in Operating Retail Grocery Stores," published by the Business Research Bureau of Harvard University in November, 1915.

In the first place, Mr. Chairman, here is a system of accounts of bookkeeping that I would like to put in the record. It is a system of accounts for retail grocers, and covers, I think, every item of expense for the system. These are simply blanks.

The CHAIRMAN. Without objection, they may go into the rcord.

(The system accounting blanks referred to are here printed in full, as follows:)

Publication GP

BUREAU OF BUSINESS RESEARCH.

HARVARD UNIVERSITY.

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION.

Harvard system of accounts for retail grocers—Profit and loss statement for period extending from ......, 191.., to ......, 191...

No.......... (Number only without name.)

..........., 191.. (Date of filling statement.)

[A brief explanation after each item is given on this sheet. A fuller explanation is given in the accompanying pamphlet, Publication GX, numbered correspondingly, which it is advisable to read also; where especially advisable, there is after each item a notation—"See Publication GX." Ledger items, 30 in number, are indicated by italics. Note, however, that only 29 of the 49 numbers on this sheet will be required as ledger accounts by any retail grocer. The other numbers are for group titles or for items derived by adding, subtracting, or multiplying other items. Furthermore, of the 29 ledger accounts, probably not more than 4 will be used on the average daily, and 8 more on the average weekly, by many stores.]

Merchandise statement: See Publication GX.					Percentage.
1. *Gross sales* .... All sales, cash and charge.			......		
Less 2. *Returns and allowances* .... Merchandise returned by customers, and allowances made to customers for any sort of defect in goods or for return of containers.			......		
3. Net sales .... Gross sales less returns and allowances (2).				......	100
4. *Inventory of merchandise at beginning of period* .... See Publication GX.		......			
5. *Purchases of merchandise at billed cost* .... Deduct no cash discount.		......			
6. *Freight, express, and cartage on purchases of merchandise* .... Incoming merchandise only.		......			
7. Total merchandise cost .... Add (4), (5), and (6).			......		
8. Inventory of merchandise at end of period .... At billed cost, cash discount not deducted.		......			
Less 9. Discount on inventory of merchandise .... Multiply (8) by average cash discount taken on (5). See Publication GX.	......				
10. Depreciation of merchandise .... However reckoned. See Publication GX.	......	......			
11. *Net inventory of merchandise at end of period* ...... Subtract sum of (9) and (10) from (8).			......		
12. Net cost of merchandise sold .... Subtract (11) from (7).				......	...
13. Profit on merchandise .... Subtract (12) from (3).				......	...
14. *Cash discounts taken on purchases of merchandise* ...				......	...
15. Gross profit on merchandise .... Add (13) and (14).				......	...

Expense statement:

Buying expense—

16. *Salaries and wages of buying force*.............. ....
    Includes that part of salary of proprietor, manager, or buyer, proportionate to time given to buying. See Publication GX.
17. *Other buying expense*.......................... ....
    Traveling and other expense incurred in buying not covered by (16). ——
18. Total buying expense...................... ....
    Add (16) and (17).

Selling expense—

19. *Salaries and wages of sales force*.................. ....
    Includes that part of salary of proprietor, manager, or buyer, proportionate to time given to selling, to directing selling, and to order collection. See Publication GX.
20. *Advertising*.................................. ....
    Newspaper, periodical, circular, display, other. See Publication GX.
21. *Wrappings and miscellaneous selling expense*.... ....
    Wrapping paper, cartons, twine, saleman's order blanks, but not containers. ——
22. Total selling expense.......................... ....
    Add (19)-(21).

Delivery expense—

23. *Wages of delivery force*......................... ....
    See Publication GX.
24. *Other delivery expense*......................... ....
    Stable or garage expense, including repairs, rent, upkeep, taxes, depreciation, and insurance on delivery equipment. Also payments for express, parcel postage, and contract delivery service—*outgoing*. See Publication GX.
25. Total delivery expense....................... ....
    Add (23) and (24).

Management expense—

26. *Management and office salaries*................ ....
    Includes that part of salary of proprietor, manager, or buyer, proportionate to time given to managing. See Publication GX.
27. *Office supplies and expense*.................... ....
    Stationery, account books, forms, printing and postage—not advertising.
28. *Total management expense*.................... ....
    Add (26) and (27).

Fixed charges and upkeep expense—

29. *Rent*.. ....
    Store and warehouse space, excluding stable, garage, heat, light, power, and subrentals received. See Publication GX.
30. *Heat, light, and power*........................ ....
    See Publication GX.
31. *Insurance on stock and store equipment*.......... ....
    Prorated per period. Not for insurance on owned store or on delivery equipment. See Publication GX.
32. *Taxes*... ....
    On stock and store equipment; not on owned store or on delivery equipment. See Publication GX.
33. *Repairs and renewals of store equipment*.......... ....
    Repairs to and upkeep of fixtures, furniture, machines; also new equipment to replace old. See Publication GX.

Expense statement—Continued.

Fixed charges and upkeep expense—Continued.

34. *Depreciation of store equipment* ....
Rate, ... per cent. See Publication GX.

35. *Total fixed charges and upkeep expense* ....
Add (29)–(34).

Miscellaneous expense—

36. *Telephone* ....

37. *Ice and cold storage* ....

38. *Other miscellaneous expense* ....
Telegraph; water; care—janitor, cleaning, and sundries not elsewhere covered. See Publication GX.

39. *Total miscellaneous expense* ....
Add (36)–(38).

40. *Losses from bad debts* ....
Accounts receivable without hope of collection.

41. *Total of expense statement* ....
Add (16)–(40).

42. *Net profit (or loss) from merchandise operations* ....
Difference between (41) and (15).

43. *Other profits and losses* ....
Profits such as interest on bank balance, sales of packing cases and waste paper, tolls from telephone pay station, rent earned. Losses such as missing goods, damage, theft. See Publication GX. Net balance. Loss in red.

44. *Total operating net profit (or loss) of the period* ....
Add (43) to or subtract it from (42).

Application of total operating net profit:

45. *Interest on capital—Borrowed* ....
From bankers, manufacturers, or others.

46. *Interest on capital—Owned* ....
At current local rate. Never for joint-stock companies and corporations. Give amount of capital, $...... and rate, ... per cent. See Publication GX.

47. *Dividends on capital stock* ....
Required by corporation and joint-stock companies only. Give amount of stock $......, rate of dividend, ... per cent. See Publication GX.

48. *Total interest and dividends* ....
Add (45)–(47).

49. *Final surplus (or deficit) for the period* ....
Add (48) to or subtract it from (44).

Publication GP. Supplement to Publication GX, Bulletin No. 3, Bureau of Business Research, Graduate School of Business Administration, Harvard University—1914.

This analysis sheet—publication GY—is a convenient form for showing by months the store's *entire* operations for one year in accord with the Harvard system of accounts for retail grocers. Provision is also made for the profit and loss statement (as outlined and defined in publications GP and GX) at inventory taken at the end of the year. Many of the entries in the monthly columns (M) will be totals taken from the analysis sheet, publication GM. The remaining items, such as Rent, Insurance, Taxes, and others, will be supplied from the ledger or from other sources. Many of the entries in the statement columns (W, X, Y, and Z) will be totals (added horizontally) of the monthly columns. On the statement at the end of the period these will, of course, be the horizontal totals of the monthly columns on this sheet. The item numbers at the extreme left and right correspond to the numbers of publications GP and GX, where they are explained, and to the numbers of the partial analysis sheet, publication GM. Capitals W, X, Y, and Z at the heads of the statement columns and M at the heads of the monthly columns indicate the proper place of entry in the various columns. It is not recommended that an analysis sheet be used instead of an adequately kept ledger, but it may be used in addition to a ledger to give a summary view of transactions. This analysis sheet—publication GY—is given as a model. All retail grocers are invited to copy it or to have printed copies of it prepared. If preferred, however, additional copies may be secured from the bureau of business research at a moderate price.

PUBLICATION GY.

BUREAU OF BUSINESS RESEARCH.

HARVARD UNIVERSITY.

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION.

HARVARD SYSTEM OF ACCOUNTS FOR RETAIL GROCERS.

Year ending .... 191..

Analysis sheet (one year by months, with statement at inventory) accompanying publications GP, GX, and GM.

Item.	Fill in M columns monthly (many of these entries will be totals from publication GM). Fill in W, X, Y, and Z columns at inventory (many of these entries will be cross totals of the M columns).	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Profit and loss statement at inventory of .... 191.. (end of period).					Item.
		M	M	M	M	M	M	M	M	M	M	M	M	W	X	Y	Z	%	
	Merchandise statement:																		
1	Gross sales.........M & Y																		1
2	Returns and allowances........M & Y																		2
3	Net sales...........M & Z																	100.0	3
4	Inventory of merchandise at beginning of period............X																		4
5	Purchases of merchandise at billed cost																		5

6	Freight, [illegible] cartage on purchases of merchandise, M & X																	6
7	Total merchandise cost ....Y																	7
8	Inventory of merchandise at end of period X																	8
9	Discount on inventory of merchandise..........W																	9
10	Depreciation of merchandise. W																	10
11	Net inventory of merchandise at end of period ....Y																	11
12	Net cost of merchandise sold..................Z																	12
13	Profit on merchandise...Z																	13
14	Cash discounts taken on purchases of merchandise..................Z																	14
15	Gross profit on merchandise..................Z																	15
	Expense statement:																	
	Buying expense—																	
16	Salaries and wages of buying force. M & X																	16
17	Other buying expense........M & X																	17
18	Total buying expense, M & Y																	18
	Selling expense—																	
19	Salaries and wages of sales force...M & X																	19
20	Advertising...M & X																	20
21	Wrappings and miscellaneous selling expense........M & X																	21
22	Total selling expense, M & Y																	22
	Delivery expense—																	
23	Wages of delivery force.........M & X																	23
24	Other delivery expense........M & X																	24
25	Total delivery expense.......M & Y																	25

Harvard System of Accounts for Retail Grocers—Continued.

Item.	Fill in M columns monthly (many of these entries will be totals from publication GM). Fill in W, X, Y, and Z columns at inventory (many of these entries will be cross totals of the M columns).	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Month of	Profit and loss statement at inventory of .... 191.. (end of period).					Item.
		M	M	M	M	M	M	M	M	M	M	M	M	W	X	Y	Z	%	
	Expense statement—Con. Management expense—																		
26	Management and office salaries......M & X																		26
27	Office supplies and expense........M & X																		27
28	Total management expense........M & Y																		28
	Fixed charges and upkeep pense—																		
29	Rent..........M & X																		29
30	Heat, light, and power, M & X																		30
31	Insurance on stock and store equipment........M & X																		31
32	Taxes.........M & X																		32
33	Repairs and renewals of store equipment, M & X																		33
34	Depreciation of store equipment (rate, ...%).........X																		34
35	Total fixed charges and upkeep expense, M & Y																		35
	Miscellaneous expense—																		
36	Telephone.....M & X																		36
37	Ice and cold storage, M & X																		37
38	Other miscellaneous expense......M & X																		38
39	Total miscellaneous expense......M & Y																		39
40	Losses from bad debts, M & Y																		40

41	[illegible] ment......... [illegible]																		41
42	Net profit (or loss) from merchandise operations..........Z																		42
43	Other profits and losses..Z																		43
44	Total operating net profit (or loss) of the period. Z																		44
	Application of total operating net profit:																		
45	Interest on capital—borrowed..........M & Y																		45
46	Interest on capital—owned Y																		46
47	Dividends on capital stock................Y																		47
48	Total interest and dividends................Z																		48
49	Final surplus (or deficit) for the period.........Z																		49

Publication GY, Supplement to publication GX, Bulletin No. 3, bureau of business reserach, graduate school of business administration. Harvard University. 1914.

This analysis sheet—Publication GM—is a convenient form for showing by days the store's operations in part for one month in accord with the Harvard system of accounts for retail grocers. This sheet does not contain all the accounts of the system, but only those that will be used on the average daily or weekly by many grocery stores. A complete analysis sheet for one year by months with statement at inventory is provided in Publication GY on which can be entered the totals taken from this sheet together with the items drawn from the ledger or from other sources. The numbers at the heads of columns correspond to the numbers of Publications GP and GX where they are explained, and to the numbers of the complete analysis sheet, Publication GY. It is not recommended that an analysis sheet be used instead of an adequately kept ledger, but it may be used in addition to a ledger to give a summary view of transactions. This analysis sheet—Publication GM—is given as a model. All retail grocers are invited to copy it or to have printed copies of it prepared. If preferred, however, additional copies may be secured from the Bureau of Business Research at a moderate price.

PUBLICATION GM.

BUREAU OF BUSINESS RESEARCH,

HARVARD UNIVERSITY.

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION.

HARVARD SYSTEM OF ACCOUNTS FOR RETAIL GROCERS.

Month.................... *Year*..........

Analysis sheet (one month by days) accompanying Publications GP, GX, and GY.

Day.	Merchandise.						Expense.																Other profits and losses.			Day.
							Buying expense.			Selling expense.				Delivery expense.			Management expense.									
	Gross sales.	Returns and allowances.	Net sales.	Purchases of merchandise at billed cost.	Freight, express, and cartage on merchandise purchased.	Cash discounts taken on purchases of merchandise.	Buying force.	Other buying expense.	Total.	Sales force.	Advertising.	Wrappings and miscellaneous selling expense.	Total.	Delivery force.	Other delivery expense.	Total.	Management and office salaries.	Office supplies and expense.	Total.	Heat, light, and power.	Other miscellaneous expense.	Profits.	Losses.	Net profit or loss (loss in red).		
	1	2	3	5	6	14	16	17	18	19	20	21	22	23	24	25	26	27	28	30	38	43	43	43		
1																									1
2																									2
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31																									31
	Total																								Total.

Publication GM.—Supplement to Publication GX, Bulletin No. 3, Bureau of Business Research, Graduate School of Business Administration, Harvard University—1914.

Now, this matter will take a little time, but if you will bear with me I think you will be interested in it. [Reading:]

What does it cost to operate a retail grocery store? How often should the stock be turned? What are the average sales per sales person? In order to answer such questions as these and to learn the best practice in store management, the bureau is collecting exact figures and other specific information from retail grocers. A preliminary summary of the figures which have been obtained up to the present time is presented in this bulletin.

The bureau of business research, it may be explained for the benefit of those who are not already familiar with its work, was established in 1911 by the graduate school of business administration of Harvard University as an agency for the scientific study of business methods and problems. Because of the need for scientific research in marketing, the bureau began with that subject. The retail shoe trade was first investigated, and in June, 1914, a similar study of the retail grocery trade was begun. The shoe research is now being extended to the marketing of shoes by wholesalers and manufacturers. Later other branches of wholesale and retail trade will be studied. The grocery research is thus part of a comprehensive study of the subject of marketing.

And so forth.

Representative MILLS. What is the number of that bulletin?

Mr. KAMPER. This is Bulletin No. 5.

Representative MILLS. Does that tell the whole story?

Mr. KAMPER. That tells the original story. You have that there, I believe.

The CHAIRMAN. I think we have it.

Mr. KAMPER. Now, getting into the summary table of percentages and other figures for retail grocery stores, the three columns are low, high, and common. Then, there is a column headed "Standards attained by a group of more efficient stores." This refers to the cash-and-carry stores figured on the costs of sales.

Gross profit on merchandise, low, 14.6 per cent; high, 27.9 per cent; common, 21 per cent. Salaries and wages of buying force, low, one-tenth of 1 per cent; high, 2.4 per cent; common, one-half of 1 per cent. Other buying expenses in the low was nothing; in the high was one-half of 1 per cent; and in the common was one-fifth of 1 per cent. Total buying expense, in the low, one-tenth of 1 per cent; in the high, 2.4 per cent; in the common, one-half of 1 per cent. Salaries and wages of sales force, in the low, 3.5 per cent; in the high. 10.6 per cent; in the common, 6.5 per cent. Advertising, in the low was one-hundredth of 1 per cent; in high, 1.18 per cent; common, one-tenth of 1 per cent. Wrappings and miscellaneous selling expenses, in the low, three one-hundredths of 1 per cent; high, 1.4 per cent; common, four-tenths of 1 per cent. The more efficient stores were operating on three-tenths of 1 per cent. The total selling expense in the low was 4.4 per cent; in the high, 10.8 per cent; in the common, 7 per cent; and the more efficient stores, 5.5 per cent.

Representative TEN EYCK. Will you tell me what you mean by low and high?

Mr. KAMPER. He refers to the "low" as the merchants who operate on the lowest cost of doing business, and to the "high" as the merchants who operate on the highest cost of doing business, and the common figure is the figure which is most generally applied. Now, you might take that for practical purposes. That was not the average, but where the largest majority of the merchants operated, at that figure.

Wages of delivery force, in the low, 0.6 per cent; in the high, 3.5 per cent; common 1.5 per cent. Other delivery expenses, low, 0.3 per cent; high, 3.4 per cent; common, 1.5 per cent. Total delivery expense, low, 1.1 per cent; high, 5.9 per cent; and common, 3 per cent.

That is bearing out my statement of a while ago, carrying your own packages would make a saving of 3 per cent.

Management and office salaries, low, 0.3 per cent; high, 3.8 per cent; common, 1.5 per cent. Office supplies and expense, low, 0.01 of 1 per cent; high, 0.4 of 1 per cent; common, 0.1 per cent. Total management expense, low, 4 per cent; high, 4 per cent; common, 1.7 per cent. Rent, low, 0.3 per cent; high, 4.1 per cent; and common figure of 1.3 per cent. Heat, light, and power, low, 0.1 per cent; high, 0.8 per cent; and the common figure is 0.3 per cent. Insurance on stock and store fixtures and store equipment, the low is 0.03 per cent; the high, 0.5 per cent; and the common figure is 0.1 per cent. Taxes, but not income taxes, low, 0.01 per cent; high, 0.5 per cent; and the common figure is 0.1 per cent. Repairs and renewals of store equipment, the low is 0.01 per cent; the high, 1.4 per cent; and the common figure is 0.1 per cent. Depreciation of store equipment, low, 0.03 per cent; high, 0.9 per cent; and the common figure is 0.2 of 1 per cent. Total fixed charges and upkeep expense, low, 0.8 per cent; high, 5.6 per cent; and the common figure is 2 per cent. Telephone, low, 0.04 per cent; high, 0.6 per cent; and the common figure is 0.2 per cent. The ice and cold storage is given in two items. For groceries only is 0.01 per cent for the low; high, 0.6 per cent; and the coommn is 0.1 per cent. Groceries and meats and provisions, in the low is 0.03 per cent; high, 0.7 per cent; and the common figure is 0.3 per cent. Other miscellaneous expense, in the low, is 0.01 per cent; high, 1.2 per cent; and the common figure is 0.1 per cent. Total miscellaneous expense, in the low, is 0.1 per cent; the high is 1.4 per cent; and the common figure is 0.5 per cent. Losses from bad debts, 0.01 per cent in the low; 2.2 per cent in the high; and the common figure is one-half of 1 per cent. The total of expense statement, in the low is 10.4 per cent; in the high 25.2 per cent; and the common figure is 16.5 per cent. Now, the net profit from merchandise operations runs from the low, a loss of 3.3 per cent; the high, 11 per cent; and the common is 2.5 per cent to 5.5 per cent.

The CHAIRMAN. That is on sales?

Mr. KAMPER. Yes, sir.

The number of stock turns a year: For groceries only, in the low, 3.5; in the high, 23.8; and the common figure is 7. In the most efficient stores the turnover is 12, the highest turnover is 23.8, and the common figure is 7. In other words, there is a turnover a little oftener than every 60 days. The number of stock turns per year in groceries and meats and provisions was, in the low, 7; high, 26.4; and the common figure was 9; the more efficient stores 14. The average annual sales per sales person, low, $5,000; high, $20,000; the common figure is $10,000.

Now, making a comparison between 1915, which was at the beginning of the spectacular rise in prices, in Bulletin No. 18 you will notice that there is a slight change in those figures. The lowest total expense in 1920 was 6.57 per cent; the highest total expense was

25.35 per cent, as against 25.2 per cent in 1915. The lowest, as I have said, in 1919 was 6.57 per cent, as against 10.4 per cent in 1915. And the common figure in 1919 was 14.6 per cent as against a common figure in 1915 of 16.5 per cent. This was published in 1920, and was for the year 1919, and the common figure was 14.6 per cent.

Representative MILLS. That is the total expense?

Mr. KAMPER. Yes; outside of two things. That is—taxes, except on buildings, income and profits, which are not included; and another item which, to the practical retail grocer, is a thing that breaks as many grocers as anything else, is the question of pilfering that goes on in the store. Nobody can appreciate just what that means to a man unless you have had experience for a number of years. The department stores, I understand from a man who is supposed to be acquainted with those things, allow a percentage of 2 per cent for pilfering and shoplifting among their own employees and the public. Grocery stores have to allow at least that much, and there is a shrinkage, and we frequently feel that the stealing and pilfering amounts to as high as 10 or 20 per cent. Here is an illustration, if you will allow me just to give you a concrete illustration. We buy a box of apples containing, say, 124 apples. We will say those are fancy apples, and cost us 3 cents apiece. After the box is opened and is standing in the store, a good customer comes in and says, "Good morning, Mr. Kamper," and at the same time picks up one of these apples and takes a bite out of it, then turns around and says, "Now, I am ready to give you my order." She gives me an order for groceries, but I can not charge her for that apple in that order. I may try to get it back, and may have a chance to get back some of it, but if I charged her for the apple she would quit trading with me because she would think I am too small.

Representative MILLS. Can you not take it out some other way?

Mr. KAMPER. That is a very dangerous thing to do. I am the only man who is able to do it, and it is a dangerous thing to do where you have a lot of clerks.

Here is another thing: You take the canned goods, like canned beets or fish, and especially sardines, and goods like bottled drinks, you would be surprised how many people who are employed in grocery stores will not think it at all improper to slip a can of meat or fish into their pockets, or a bottle of some kind of bottled drinks and eat it or drink it and not think at all it is stealing. If one of those persons would see another go to the cash register and take out some money, they would immediately report that So-and-so was stealing. But they do not think anything of it if they go and take 15 or 20 cents worth of canned meats or some kind of drink and put it into their pockets and eat it or drink it.

We run a bakery in our store, and it is the most astonishing thing to see men who have been for years in the business when they see a tray of cookies coming down the elevator going to the retail store just reach out their hands and take a cookie. It seems to be an attraction, just like sugar drawing flies. And every time they take a cookie it means a half cent or a cent or whatever the cost may be.

On walnuts during the time they are moving slowly, it amounts from 18 to 22 per cent.

On sardines we have to allow a shrinkage of at least 20 per cent, and it is always on the fine Norwegian sardines. They do not steal anything but the good ones.

We feel like the Dago said to the lady when she came up to his pushcart and handled the cantaloupe, and the Dago handed her a coconut and said, "Lady, pincha da coconut; don't pincha da cantaloupe." The loss on cantaloupes and tomatoes and peaches—and the farmers are directly interested in that thing—amounts to from 25 to 35 per cent, which is simply from the handling that people will give them.

That is a strange thing. You watch a merchant who handles green goods, and instead of having a display of a large number of heads of lettuce, for instance, he will have a display of two or three heads of lettuce. You take the fancy California lettuce, the iceburg lettuce, and have them pyramided up five or six high, and a lady comes in to buy lettuce, she invariably wants the one that is at the bottom always. What does she do? She pulls that whole pile of lettuce down to get to the one she wants. And in doing that she spoils the other lettuce heads. In other words, the grocer may make a 25-cent sale, but he has suffered a loss of 50 cents to his other lettuce.

The same thing happens in cantaloupes and tomatoes. We have to have shallow bins and have not more than two layers, and that is all we have. By the time we sell those we have got to go to the surplus stock and fix up the bin again, because the fruit that is bruised and destroyed by handling would eat up all the profit.

Representative TEN EYCK. That illustration of the woman and the cantaloupes has been brought on the retail grocer to some extent on account of selling green ones to his customers; the housewife has learned that if she does not examine them she is liable to get green ones, provided she takes just what is given her.

Mr. KAMPER. Yes; but the first-class merchant should not have anything but edible goods.

Representative TEN EYCK. Let me ask you, are you going to bring out later, or is this the proper time, to ascertain the overhead charges on the various sized grocery stores?

Mr. KAMPER. I am sorry that there are no figures that I really can give you that are conclusive in that respect. In other words, so far as I know, there has been no analysis made of the various stores in that connection.

Representative TEN EYCK. I take it these figures represent, to a certain extent, the efficiency of the operator?

Mr. KAMPER. They are more or less composite figures.

Representative MILLS. That is, between 15 and 25 per cent?

Mr. KAMPER. Yes; the average figure is between 14 and 25 per cent.

Representative TEN EYCK. What I am interested in is, if we have too many small stores can they exist, due to the small gross sales?

Mr. KAMPER. I think that is a very fine question to ask, and it is a strange thing in all of them, that with all the number of stores, and without being able to prove one iota of coercion or association effort by anyone to control prices,and when they are all scrambling to get all the business they can get, that ordinary competition would not control that point.

Representative TEN EYCK. Many of them go out of business.

Mr. KAMPER. Eighty per cent of them.

Representative TEN EYCK. But many consumers, for convenience sake, will pay a large price to the retail distributor. What I would like to find out is what the overhead is in the small grocery store, with few turnovers and few sales which undoubtedly constitutes the greatest number of grocery stores throughout the country.

Mr. KAMPER. The only answer I can give is this figure of 25.35 per cent as the highest operating expense in retail grocery stores in 1919, and the common figure is 14.6 per cent.

Representative TEN EYCK. Is this the lowest?

Mr. KAMPER. No; the lowest I have given is 10.4 per cent.

Representative TEN EYCK. That was in 1915?

Mr. KAMPER. Yes; and that goes down in 1919 to 6.57 per cent as the lowest.

Now, there is one class of merchants which I think it is pertinent to bring in here, who are going through the experimental stage. I don't know that I would be at liberty to mention the names, but they are claiming to do business at 5½ to 7 per cent.

The CHAIRMAN. Gross?

Mr. KAMPER. Yes; that is strictly a self-service store. But the fact of the matter is that their figure is not worth anything, because they showed a deficit last year of nearly $7,000,000.

Representative MILLS. That would be in their inventories?

Mr. KAMPER. I don't know, but the markets fluctuate from day to day and month to month, and you have got to take that into consideration.

Representative MILLS. That would not have anything to do with operation. You are dealing with overhead.

Mr. KAMPER. I don't think you can separate these figures in that way.

Representative MILLS. Then they are worthless. Either they represent the overhead figures, or you are taking in the element of profit on sales, and you are introducing an entirely new element. As I understand these figures, they represent the cost of overhead operation.

Mr. KAMPER. Yes; cost of overhead, so far as we can get at them.

Representative MILLS. And you are not entering into the cost at which goods are bought and sold; that is an entirely different element.

Mr. KAMPER. Anyhow, this organization is in an experimental stage, and I do not think that these figures can be taken as a criterion or basis, because they have not been operating long enough. Some places they operate more efficiently; some places they have been operating at these figures.

Representative TEN EYCK. It would be important to know whether these efficient stores are large or small, and whether they are in the system of chain stores, or whether they are one-house stores, so to speak.

Mr. KAMPER. As a rule they are chain stores.

Now, he has a comment on all those things. On the question of stock turn, he says this [reading]:

> The lowest rate of stock turn reported in 1919 was 0.55 times a year, the highest 29.2 times. The store showing the highest rate of stock turn was the one that sold not only groceries but fresh fruits, vegetables, and meats; nevertheless, numerous stores handling only groceries showed a rate of stock turn substantially higher than the average. The common figure for stock turn in 1919 was 8.3 times a year.

You will recall the figure in 1915 was seven times a common figure. [Continuing reading:]

A comparison of the rate of stock turn for 1918 and 1919 in 60 identical stores showed practically no change in the latter year.

The store with the lowest total expense in 1919 had a stock turn of 13.2 times a year. All the expenses in this store were lower than the average.

The rate of stock turn is determined by dividing the average inventory into the cost of merchandise sold, not into the sales.

A common error is to divide it into the sales.

Representative MILLS. Do they give anywhere the average profit on the turnover?

Mr. KAMPER. Yes; in this 1915 report they gave the average as 2 per cent, there. This table does not give it.

Representative MILLS. If the average turnover was 8½, and the average profit 2 per cent, that would mean an average profit on capital invested of about 17 per cent, would it not?

Mr. KAMPER. No, sir; because we are dealing here strictly with the merchandise turnover, and are not dealing with his cash in bank, or his fixture account. This is stock here. This is not turnover on his capital; although if you could find that out on the same basis, you could get at that figure. That is, if he had $4,000 invested and he made so many turns and had so much profit, you could get that on his capital.

Representative MILLS. But in reaching that figure of 2 per cent, I assume he is taking into consideration all items, including return on the investment, except profit; is that not so?

Mr. KAMPER. I think that applies simply to his merchandising sales, and not his investment; 2 per cent on sales.

Representative MILLS. Yes; but in order to reach the profit of 2 per cent you have to deduct all expenses, including the return on the investment, have you not?

Mr. KAMPER. Yes, sir.

Representative MILLS. You must have——

Mr. KAMPER (interposing). No; no profit for merchandising; profit and interest is added in addition to that.

Representative MILLS. With the interest added, what is the profit?

Mr. KAMPER. The interest added is only eight-tenths of 1 per cent.

Representative MILLS. That would bring the profit down to 1 and 2?

Mr. KAMPER. It would bring the profit down to 1 and 2.

Representative MILLS. A very material difference?

Mr. KAMPER. Yes, sir.

Representative MILLS. The average profit would be a little over 8 per cent.

Representative TEN EYCK. The small grocery store could not live on 15 per cent profit on his capital.

Mr. KAMPER. That is figured out and reported the same way. I do not know that I can lay my hands on it. But the average grocer does not get even fair wages for his services; he does not get average wages. I think it is in the Wisconsin report some place. I know they put that in some place, that in ordinary times he could go out and get $25 or $30 a week, and the profit that he has been taking out of the business would not pay him that salary.

Representative TEN EYCK. In his gross cost, I imagine he charged in his salary.

Mr. KAMPER. Lots of them do not.

Representative TEN EYCK. We are taking it for granted that your figures—and all the statistics are given from a scientific basis—that a reasonable salary for himself is included in the gross cost of operation, and the 1 and 2 per cent on the turnover is net to him in addition to that.

Mr. KAMPER. The Harvard figures, of course, include that, but the average grocer does not keep any set of books and does not charge his business with his salary, and in a great many instances where he happens to own a property, or an equity in a piece of property, he does not even charge rent for his store. These figures include that.

Representative TEN EYCK. But if you have a percentage or overhead——

Mr. KAMPER (interposing). Yes.

Representative TEN EYCK. We have to assume that the figures were established on a scientific basis.

Mr. KAMPER. These figures are as near scientific as I can produce from reliable sources.

Representative MILLS. But you have to write in red letters that 80 per cent of those people go out of business.

Mr. KAMPER. Yes; and these figures would apply to the 5 per cent who are successful, and not to the 80 per cent that fail.

Representative MILLS. They apply to the 5 per cent who are successful?

Mr. KAMPER. Yes, sir.

Representative MILLS. However, in reaching your averages the 80 per cent of inefficient grocers world tend to raise those figures?

Mr. KAMPER. No; he—Harvard Bureau of Business Research—could not get over 400,000 retail grocers in the United States, so far as I can tell. These figures are from the ones who corresponded with him; not the 400,000. Most of them are not equipped to give the figures. As I said at the beginning, this is the only authentic source of information we have.

Representative MILLS. These would represent then the——

Mr. KAMPER (interposing). The 5 per cent.

Representative MILLS. Not necessarily. They have not just picked the successful grocers; in reaching the fellows that keep books, you probably have selected the better class of grocers.

Mr. KAMPER. I think I had better read this. [Reading:]

The annual summary of operating expenses in retail grocery stores for the year 1919 is presented in this bulletin. The Bureau's first bulletin on the results of its investigation in the retail grocery business gave a summary of operating expenses in 1914. Its next grocery bulletin contained a summary of the cost of doing business in 1918. This bulletin brings the figures up to date. During the present period of readjustment to normal conditions, the bureau is planning to issue summaries annually. Numerous merchants who send in their reports to the bureau each year desire such an up-to-date summary for comparison with their own figures, and this information is valuable also to the Harvard Graduate School of Business Administration of which the bureau is a part.

The statements that were used in the preparation of this summary have, as heretofore, been carefully adjusted to the standard system of accounts for retail grocers. This year the bureau has found a substantial improvement in the completeness of the reports received from retail grocers. The bureau is constantly receiving evidence that it may expect this improvement to continue; several merchants who have not

participated in this research work in the past recently have stated that they now are adjusting their books to the standard accounting system.

The total number of reports that have been received from retail grocers for the year 1919 is 263.

Two hundred and sixty-three out of 400,000. [Continuing reading:]

These stores were located in 37 States and Canada. Of these reports 144 were from merchants who had submitted one or more reports in previous years and 73 were from merchants who reported for both 1918 and 1919. The reports that were sufficiently complete to be used in the final tabulations for the summary of the cost of doing business number 175. The other reports were used as corroborative evidence.

As I said awhile ago, that is the most complete evidence that we have.

The CHAIRMAN. Have you any idea what the average turnover is of a grocery store?

Mr. KAMPER. I would say between six and eight times.

The CHAIRMAN. I mean the average volume?

Mr. KAMPER. I would have to guess at that. From my observation of the merchants, and taking a vast number of small merchants, I believe that the average volume is $2,000, or less, per month, or you might say $25,000 a year or less.

The CHAIRMAN. Well, of all these grocery stores that they were dealing with in this report the vast majority of them were, of course, stores that were making a profit, and consequently are successful stores?

Mr. KAMPER. That is the reason I am basing my figures on these groceries. I think it has been a generally accepted rule before the high prices that there was practically a grocery store to every 200 or 250 people. Some people think that has been raised to one grocery store to every 400 people. I do not mean families, but people, in the United States.

Senator CAPPER. Has there been any reduction in the cost of distribution in the last few years?

Mr. KAMPER. The cost of distribution will rise in proportion to the lowering of the market price of goods. There was certainly a tremendous increase in distribution cost, and now that prices have receded you can not cut down the distribution cost all at once. Possibly in the course of five or six or seven years the costs will be reduced proportionately. But, judging from previous experience, in the course of nine years they will be reduced to about the point of 1913. The matter of transportation is one thing, and the matter of taxes is another thing. Those are the two principal things. And, of course, the lower the value of your product the higher the cost it will be proportionately. A pound of flour or bacon is a pound, whether it costs 10 cents or 50 cents, and will supply just as much food to the consumer.

Senator CAPPER. Do you think the cost of distribution of groceries is as economical as could be desired?

Mr. KAMPER. No, sir; I don't think it is as economical as it ought to be, and yet how can we change the system? People want the goods they buy. The convenience of the stores at which they buy is as much a part of the purchase price, the satisfaction that they will get out of the goods, as the goods themselves. And if the people do not patronize the little fellow who moves around on this corner, he can

not stay in business. He stays in business a certain length of time because the neighborhood will patronize him to a certain extent.

It is interesting to notice how grocery stores will distribute or scatter throughout any town. I have noticed it in several places that in the space of about every mile, in some towns, you will find there is more or less of a community center there which usually consists now of a grocery store or more, the so-called drug store, and soda fount, a local shoe repair store, and in certain localities a fruit store, and in some towns a bakery, and in some towns a delicatessen shop, and in some towns an automobile filling station. You can go to almost any of these towns and notice from one point to another in the town, in a space of about every mile there is a community of stores. And that condition exists, I dare say, almost everywhere, except where there are restrictions limiting the location of stores.

Senator CAPPER. Are you familiar with the figures of other countries?

Mr. KAMPER. I have a letter, which is not as complete as I would like to have it, from England, from John A. Green. I am familiar, in a general way, with France. I do not know that I am competent to speak of Italy, or Germany, or any other place. The condition in England, from which John A. Green writes, is similar to the condition in the United States, excepting that they have a stronger organization of cooperative stores; and yet, under the present conditions the cooperative stores are having as much trouble as the American stores.

They have this thing to consider, and in a grocery store here it is almost an unheard of thing. This was at a grocers' convention with a registered attendance of 550. [Reading:]

The questions brought before the convention were somewhat the same as our own, but more of them. The clerks have a very strong organization in England as in France. They are always contending for less hours. Forty-eight hours is now the maximum. They can work longer, but they must be paid accordingly.

Just imagine in this country a grocery store being opened only 48 hours a week. Imagine a woman who is accustomed to going down to the grocery store in the morning, finding it not open, and a grocery store in this country working only 48 hours a week. [Reading:]

Forty-eight hours is the maximum. They can work longer but must be paid accordingly.

There is more Government interference, and many laws that make it more complex. The English trade does not have the sales tax, but he has all the taxes he can bear. One of the questions before the convention was the trouble to get the guaranty clause on the invoice. Multiple shops—chain stores—cooperative stores, the International, and other shops, are a serious handicap.

However, the "coops" are not having easy sailing at the present time. A strike is on because it is found necessary to discharge managers and clerks on account of the falling off of business. They want all to be retained at half time with the same wages. The central body to which all "coops" belong say it is impossible. What the outcome will be I don't know, but I can take my Yankee guess.

I have been looking carefully into the position of the wholesale grocer. It has often been said, "He didn't exist." He is here just as at home, with the same thought as to the future position of the independent retail grocer. He sees the growth of the "coops," Lipton, the International, and the other methods which are here in great methods.

Here as everywhere else sugar is sold at cost or less; 6¾ pence is now the low price, double what it is in the United States. Margarine is sold by some at cost. Eggs are selling for 3 pence a piece, 70 cents a dozen. We sell only the small rib. Here the whole side is pickled and smoked just as the customer likes it.

The wholesaler here believes that the intelligent storekeeper will long be a necessity. However, he concedes that the retailer must do something to keep himself and that the wholesaler must encourage, educate, and assist the retailer in his contention for trade. But, while he does think so, he, like our wholesaler, is practically leaving him to work out his own salvation.

Now, the retail grocers over there have what I think is the brightest mark among English-speaking people. They have a school for grocers—a number of schools—for the purpose of educating young men for the grocery business. I would like to make this statement here, in reference to a certain class of young men. Whenever I can get a Norwegian or an Englishman to work in my store, I always hire him, because I know that he knows his business. [Continuing reading:]

There are a number of schools for the purpose of educating young men for the grocery trade. I am to present the diplomas to some graduates in Liverpool on August 18. I will write more of this when I have the privilege of inspecting the system at the school. Perhaps it would help the American grocer if some such schools were in operation in America.

Government stores for disposing of old foods have been hard competition for the grocer here, not that the people wanted old stock, but it made the price that the people were not slow to take advantage of.

General prices for canned goods are nearly like ours, as the difference in exchange will admit. The rate of exchange is now about $3.70 for the pound sterling, about 25 per cent off. Before the war it was $4.85.

There can be no stability to business as long as this great difference exists. We are to-day getting 19 lires for a dollar instead of 5, but the price for everything is in proportion.

There can be no stability in foreign trade until some system is inaugurated that will close up the tremendous gap.

Representative MILLS. Do they have as many failures as we do?

Mr. KAMPER. I think not. They are more methodical, and will not take as many chances as the American does.

Representative SUMNERS. What has been the prior training of most of the people who open grocery stores?

Mr. KAMPER. They are failures at almost everything else, and open up a grocery on another leg, and there will be another failure.

Representative SUMNERS. I think that is an important thing to consider in connection with this testimony.

Mr. KAMPER. A man who has accumulated a little money, say a few hundred dollars, in another line of business, or a retired farmer, or a man who has become crippled, and receives a little money from an insurance company, or a man who has been an insurance solicitor, fire or life insurance solicitor, or a man who retires from his farm, as I have said, comes into town and opens up a little grocery store. Until 1914 it was possible for a man to get together $300 in our town, either borrowed money or his own money, and come into town and open up a little store, and in six months he could owe the jobbers $5,000. He was some merchant.

Representative SUMNERS. When you have people engaged at the distributing end with that sort of efficiency, do you not conclude that the public has to pay for it?

Mr. KAMPER. They are bound to have to pay for it.

Representative SUMNERS. Do these people sell on credit to a considerable degree?

Mr. KAMPER. I have understood that a good many of the corner groceries do a good deal of credit business.

Representative SUMNERS. Do you know what is their percentage of loss from that source?

Mr. KAMPER. I haven't any average to go by on that class of merchants. It depends a good deal, I think, on the individual merchant, perhaps altogether on the individual merchant. I know of some men, myself, who have been in business for a number of years and have not lost much, if any. And I know that they have handled accounts that I, as a larger merchant, would not fool with. They will take the accounts of the mill workers and small accounts. They have a system of keeping up with them and keeping their accounts up to date. I do not know as I ought to single out any one system and speak for it, but I will mention the McCaskey system. That system consists of slips, and as a sale is made a slip is made out, and each sales book has a line on the bottom, and as each sale is made it is added to the previous sale and the previous account, and they hand that account to the customer, and also keep a copy. I do not like the system myself, because it is so easy for an ignorant clerk, or an average clerk, to drop a dollar in making the addition in the account. Frequently the only employees in these small stores are the proprietor himself and his wife or children. They do all the work in the store, except on extra days or before holidays.

Representative SUMNERS. In what class of goods do the grocers make the largest profit?

Mr. KAMPER. I think I can answer that very concretely here. A good merchant, of course, will have to mark up his goods according to the perishableness of his goods and the amount of waste that he may have.

But here is a figure which Paul Findlay, who is a very successful man as a retail grocer, and who is known all over the United States, gives. He takes it from the figures of the Duffy-Powers Co., of Rochester, N. Y., their percentage of total sales for June, 1919. And he shows that sugar constitutes 13.6 per cent of their sales; butter constitutes 12.9 per cent; cured meats, 11.5 per cent; canned milk, 7.6 per cent; fresh fruits and vegetables, 5.6 per cent; soap, 5.5 per cent; eggs, 5.2 per cent; butter substitutes, 4.2 per cent; fats, vegetable, 3.57 per cent; salad dressings, 2.96 per cent; flour, 2.68 per cent.

Representative SUMNERS. You mean he sold as much salad dressing as flour?

Mr. KAMPER. That is what they report. I do not understand the report. Frankly, I have never been able to analyze our sales in that way. Of course, the statements are made here. I think I can draw some typical lessons from them. These items, like sugar, butter, cured meats, canned milk, eggs, vegetable fats, and flour—those articles constitute what we know, in our business, as less than cost of sales staple articles. In other words, they are sold at less than the average cost of doing business. In this case they constitute 57.08 per cent of his sales, forcing him on the other stuff, in which I include such articles as soap, butter substitutes, canned salmon, baked beans, and all this other list down here—forcing him to mark that 43 per cent up high enough to take care of the deficit on this 57 per cent.

Representative SUMNERS. On those articles, where the grocers buy direct from the farmers, what is the spread there?

Mr. KAMPER. I am glad you asked that question, because——

Representative SUMNERS (interposing). Where they buy directly from the farmers, and sell to their customers.

Mr. KAMPER. That depends on the locality, of course. In the large cities, I dare say, the retail merchant has no opportunity to buy things direct from the farm. Take a city like Philadelphia, or St. Louis, or Chicago, and certainly in New York. But in cities of 100,000, or less, of population, in season, he can buy from the farmer direct Irish potatoes, and with us, sweet potatoes, and sometimes, but not often, corn meal; he can buy eggs, and certain grades of butter, and often cabbages and onions, and in season apples, and things of that kind. I want you to catch those words "in season," because in a competent grocery there is no such thing as a season any longer, because nowadays on account of the efficient refrigerator service garden stuff is not handled over 60 days, or 2 months, direct from the former, that is only during their local season. The majority of the goods less than that.

You take the eggs. The period of greatest production is about the only time that the average retail grocer has an opportunity to buy eggs from the farmers. I am glad you asked that question, because we handle a great many eggs, and specialize on them, and we find it this way, that out of season, which is 10 months in the year with us, we have to go to Tennessee for good eggs. We will take as a basis 30 cents a dozen, which is what we are paying the country merchant for eggs to-day. The express rate from Bellbuckle, Tenn., to Atlanta is 3 cents; the breakage loss is about 2 per cent; the cost of candling is 1 cent per dozen; and the cost of the cartons, 1 cent per dozen. The law says, of course, that the railroads are responsible for the damage to your stuff, and that applies in the case of eggs. Unfortunately, eggs are one thing that we can not make a claim on the railroads for, for every cracked egg or every damaged egg. It means until you have handled every egg of the 30 dozen in a case you can not find out whether a railroad man set that case down too hard and broke the eggs; and right there, I think there can be a great improvement made on the method of handling eggs. We have figured 2 per cent breakage, and from numerous tests we have made, I think that is a very conservative figure.

The only way we can detect whether those eggs are all good is by candling. In fact, the law says that we must candle them. In some cases grocers are required to candle the eggs and stamp them before they are allowed to sell them. We have allowed 1 cent per dozen for candling the eggs. Then, we have figured a cost of 1 cent per dozen for the cartons. They are shipped a distance of about 200 miles. And we have to figure that our eggs do not cost us 30 cents; they cost us what it actually costs us to put them in the house in salable shape. And it costs from 5 to 7 cents a dozen before they are ready for market in salable shape. Then, the merchant figures as a rule—and this is one of the strange things in merchandizing—he figures on a profit of 6 cents a dozen on eggs. It does not make much difference whether the eggs cost him 30 cents a dozen or 80 cents a dozen, he figures on a profit of 6 cents a dozen. But it is strange to say, the Food Administration did not give us that profit.

The CHAIRMAN. You mean you figure on a profit of 6 cents a dozen?

Mr. KAMPER. Yes, sir.

Representative SUMNERS. What did the Food Administration give you on eggs?

Mr. KAMPER. Four to six cents a dozen is all they gave us.

Representative SUMNERS. Did the Food Administration give you 1 per cent, or 1 cent a dozen?

Mr. KAMPER. No; I spent a day on that matter; I wanted to get a per cent on eggs.

Representative TEN EYCK. If you get 6 cents a dozen profit on eggs when you are selling them for 30 cents, you get a satisfactory margin.

Mr. KAMPER. Yes, sir.

Representative TEN EYCK. But if you figure on the higher prices, of, say, 80 cents a dozen, you are not getting a satisfactory margin?

Mr. KAMPER. No; we would rather have a per cent basis.

Representative TEN EYCK. At the lower prices you are better off.

Mr. KAMPER. Yes; it worked out better in a money way for us.

Now, here is another thing we must remember: The bulk of the eggs in the country are not produced by the professional poultry man. I think the professional poultry man gets better prices for his eggs than the average farmer does. The average farmer has a few hens, and gathers a few eggs and sends them to town to the local store; or what happens in our country is this, that a peddler will take a Ford and go out through the country and gather up eggs and gives the farmer cash for them—it used to be barter but now it is cash—and then he sells them to the country merchant, who will go through the process of candling and shipping them. And here is something, if it was followed by the country merchants, would be valuable.

But I don't think it is practicable until you have gotten your eggs to the third hands; that is, into the hands of carload shippers. That is, to grade the eggs. The farmers, of course, do not grade the eggs. But if the country merchant could grade the eggs and ship the large eggs together, and the small eggs together, he would get a much better price. And then if he will grade them according to the taste of the market, as to whether they want white or brown eggs, he will get more out of them. But they are mostly put all into one basket, all together, when, in fact, certain markets desire all of one kind of eggs.

Representative TEN EYCK. New York, for instance, wants white eggs, and Boston wants brown eggs?

Mr. KAMPER. Yes. And I am sorry to make this statement, that there is not much of a code of honor among the producers of eggs. In other words, they would as soon go out and bring you a nest of eggs that a hen has been setting on for two weeks as to bring you fresh eggs, and then laugh over it, and think they have dome something smart. And they have done something smart, because if you do not candle your eggs carefully enough, and sell a bad egg and it is reported to the local food administrator, he will call upon me, and he will say, "Mr. Kamper, have you done this?" And I will have to say, "Yes." And I have actually seen fines put on local merchants who were trying to be honest, and to make nothing but an honest profit out of eggs.

Representative TEN EYCK. Of course, that costs the honest producer money.

Mr. KAMPER. Yes; that is what I was getting at. He pays for the dishonorable act of the man who is merchandising—using merchandising in that sense—these stale eggs, and is penalized to make up for the shortcomings of his fellow man in this business.

Representative SUMNERS. What, in your opinion, is the loss to the farmer in not having his eggs standardized as to quality and size, etc.?

Mr. KAMPER. I should say around 3 cents a dozen, which, considering the vast number of eggs, is a tremendous factor.

Here is another thing that is going to happen this year—now, I am making a prediction, and a fellow is very foolish to make a prediction this year—but my prediction is that the eggs in cold storage are going to hurt the farmer who produces eggs this winter.

Representative SUMNERS. How long is it necessary to keep eggs in cold storage in order that the people may have enough accumulation to carry them over the low production period?

Mr. KAMPER. I don't know that. You know, of course, the period of greatest production; the period of greatest production is in March and April.

Representative SUMNERS. I withdraw the question. I understand that we have those figures available.

The CHAIRMAN. Swift & Co. have given out a chart showing how long they have kept them. That is all a matter of record.

Representative SUMNERS. I withdraw that question.

Mr. KAMPER. Whether the farmer or producer could do that more economically than the other agencies which now do that work is a question I am not prepared to answer. I suppose it would take a lot of statistics. I know the fellows that store some years make a lot of money, and then other years they lose some.

The CHAIRMAN. Mr. Kamper, would you care to give us from your own business the figures for cost of operation as between 1913 and 1920?

Mr. KAMPER. I am sorry I did not bring those details with me. I will give them as accurately as I can recall them. It is costing us approximately 6 per cent more to operate than it did in 1913.

Representative TEN EYCK. That is, 6 per cent more in 1921?

Mr. KAMPER. Yes, sir.

The CHAIRMAN. That is on your sales?

Mr. KAMPER. Yes, sir.

The CHAIRMAN. In a general way, can you tell us what increases in your costs make up that 6 per cent?

Mr. KAMPER. Our last report, if I remember rightly, showed that our salesmen expense had increased about 2 per cent—salaries of sales people. Taxes had increased about 1 per cent. Our taxes are terrific; I think it is 1.45.

The CHAIRMAN. That is, your taxes represent an increase of 1 per cent of your sales?

Mr. KAMPER. One per cent. And in that is no income tax and no excess-profits tax. The containers increased about a quarter of 1 per cent. The telephone service, heating and lighting of the store increased fully 1 per cent. We have just undergone an increase which means to us an increase of $840 a year in the cost of our telephone service, with no increase in our equipment, and until recently poorer service.

The CHAIRMAN. How can that be?

Mr. KAMPER. They have increased the rate down there. They were operating on a deficit, and they have increased it through the State railroad commission.

Representative TEN EYCK. How about the rents?

Mr. KAMPER. We fortunately have the cheapest rents in Atlanta.

Representative TEN EYCK. Has that increased?

Mr. KAMPER. We have a long lease. But the average rents have increased a great deal. The reason I make that statement, I know that the merchants in the heart of the town, practically all of them, have moved from two to six blocks away from their former locations on account of rents.

The thing that affects our sales expense is the increased cost of street car fares. You take the average person that is earning a normal salary of $15 or $18 to $20 a week, and an increase of from 5 to 7 cents in getting to business, that increase means a great deal to them, and it also means a great deal in the cost of maintaining their families.

The CHAIRMAN. What is the usual mark-up on flour?

Mr. KAMPER. We try to get 20 per cent. The usual mark-up is around 15 to 18 per cent. These Wisconsin figures give it as 15 to 18 per cent as the usual mark-up. That is, when sold in packages.

Representative TEN EYCK. How long do you keep open during the day; what are your hours?

Mr. KAMPER. From 7 to 6; from 7 in the morning to 6 in the evening.

The CHAIRMAN. What is the ordinary mark-up on perishables—lettuce, and so on?

Mr. KAMPER. I would say that mark-up is 33½ per cent of the selling price, or 50 per cent of the cost. And I will make the further statement that 60 per cent of the retail merchants who are handling vegetables are losing money on them.

The CHAIRMAN. Would that represent the usual mark-up on apples and oranges?

Mr. KAMPER. No; on box apples, you do well to get 25 per cent; on barrel apples you do well to get 20 per cent, and on oranges you do well to get 25 per cent mark-up.

The CHAIRMAN. On the selling price?

Mr. KAMPER. Yes. And that is a very important point, because that shows the effect of grading on your box apples and oranges, you see. And the fact that the retail merchant knows, when he buys a box of apples that is said to contain 126 apples, that he is getting 126 apples, or when he buys oranges of a certain size that he will get those, makes a tremendous difference. The merchant can go to the telephone and call up the jobber and say, I want a box of winesap apples, and he knows just how many he will get in a box.

The CHAIRMAN. He knows about the box, how many are in a box, but that is not always true of the barrel, is it?

Mr. KAMPER. No, sir; if they bring a barrel and you ask them to open it, you had better open the bottom. There is usually a half bushel or such a matter of select apples on the top, and the balance of the apples, if they are not field run, they are at least not of the same size and grade as those on the top.

Representative TEN EYCK. If you buy a box of A grade apples, you know they are graded all one size; whereas if you buy a barrel you do not know that. When you buy a box, you have the same size all through the box, and the retailer buys the sized apple that his customers will take, and the price that will they pay for that size.

Mr. KAMPER. And he will prefer to pay more for the box apple than for the barrel apple.

Representative TEN EYCK. For that reason, that they are graded, and the barrel apples are not graded?

Mr. KAMPER. Yes, sir.

Representative TEN EYCK. That is, graded to size?

Mr. KAMPER. Yes, sir.

Representative TEN EYCK. "A" grade apples run from 2¼ inches up, to come within the law?

Mr. KAMPER. Yes; that is a fact, and I think that grading system could be changed with benefit to the retailer and to the producer and to the consumer. In fact, I think it would be a material advantage.

Representative TEN EYCK. It would be an advantage to the producer if he could get the help to grade his apples in different sizes.

Mr. KAMPER (interposing). Yes; it would be an advantage to the producer.

The CHAIRMAN. In West Virginia they have a grading system on apples.

Representative TEN EYCK. The man who wants good apples would pay for the cost of the box and for the labor performed in sizing the apple.

Mr. KAMPER. And as a merchant I would rather pay for that.

Here is a thing, gentlemen, that the country man is interested in. That is the other part of the egg, the chicken. The Government has done a great deal of work in trying to teach the producers and raisers of chickens to market their product properly. But it is true that outside of a few places it is impossible to get satisfactory chickens. What is the result? The merchant who has any trade at all would prefer to go to the commission house where he can buy what he wants. In other words, he prefers not to deal with the farmer direct, but to go to the commission house where he can select what his trade wants.

Now, there are two things there that can be helped in that connection. In the first place, the same thing about grading to size and quality, as I said in the case of the eggs, will apply to chickens. And as to the feeding of the chickens. A farmer, just before he brings his chickens to market, will throw in handfuls of corn which the chickens will eat greedily, and then the farmer will weigh up his chickens and find that he has 100 pounds of chickens. When they are weighed by the merchant to whom he sells, it is found that he has only 95 pounds. Then he says that the merchant has robbed him of 5 pounds of chickens. As a matter of fact, that is not true, but in the meantime, between the feeding of the chicken and the time he has gotten it to market, the chicken has got rid of that corn, and it does not weigh what it did when the farmer weighed it. If the farmer would not feed his chicken at all within 24 hours of shipping it, only to give it water, he will come nearer to getting his money's worth for his chicken than otherwise.

I have in mind a man by the name of Morrow, of Carrollton, Ga., who is a very shrewd peddler; a little while ago he went out on his route and bought up a lot of chickens, and at that time the market was unfavorable. He took his chickens home and got some screenings of wheat, and put them in pens and fed them for awhile and brought them to town three or four weeks afterwards when the market was more favorable, and I believe that he made about 35 or 40 cents on every chicken. In the first place, they were as plump as could be; and they had been properly starved before being killed. He knew how to handle them, and he made a very handsome profit and dividend on his feed.

The country merchant is an important factor in the distribution of food, both in getting the food to the people where it can be used, and also in selling to the people in the scattered communities what they want.

Here is another thing, in jumping from the farmer to the city again, that is increasing the cost of things very largely, and it is a thing that I don't know how any testimony can get around. And that is the fact that people are given to buying more and more out of the paper bag in minimum quantities; as we call them, "paper-bag people." They want a quarter of a pound of this and a dime's worth of that, and those people always have to pay a high price for their goods, a much higher price than they would have to pay if they could find a way to buy in a more economical manner. If they could buy in larger quantities, and in a more economical manner they would find that it would prove to their advantage.

The CHAIRMAN. That is due to the way people are living to-day.

Mr. KAMPER. Yes.

The CHAIRMAN. Take this city here, for example, where a large number of people live in apartment houses and have no place to store things. They can not buy in large quantities, because they have no place to keep things of that kind. I do not see any way out of it so long as people are living in small apartments.

Mr. KAMPER. Unless you get some way to develop the home again. I do not see how you can do that immediately.

The CHAIRMAN. When I was a boy we used to buy 15 bushels of potatoes in the fall of the year, and put them in the cellar for winter use. Now we go to the store and buy a quarter of a peck of potatoes at a time.

Mr. KAMPER. Yes; and you have to pay proportionately for that service.

The CHAIRMAN. Yes; we have to pay a proportionately larger price.

Mr. KAMPER. Yes; and you also pay for another thing: You paid for it in the other instance, but did not know it. That is the shrinkage on the potatoes. In this instance you pay for the shrinkage, just as your mother used to have that shrinkage in the basement, but she didn't know it.

The CHAIRMAN. You were going to give us some data, I think, on retail meat sales?

Mr. KAMPER. Yes; but before I get to the meat sales I want to make this statement about certain staple food commodities. I have brought up this other point that you have just mentioned, and I want to follow it a moment, and that is this: You take an article like rice,

which is as staple as flour, or as staple as potatoes, or an article that is staple with us, like grits—or hominy, you call it here. We have gotten into the habit down there—I say we—the consumers have gotten into the habit of demanding an article of that kind in a fancy pasteboard box, which costs as much as the article itself costs, if it was put up in the old-fashioned way. Here is a thing that I can use for illustration, if we had our way of merchandising. Take corn grits. The Quaker Oats people put up corn grits in a fancy pasteboard box, which is sold for 15 cents a package, and contains a pound and a half, or 10 cents a pound. We can buy from the Quaker Oats people corn grits in bulk, and can sell it to the trade at 10 pounds for 31 cents. We can do that and get a better gross profit than we do out of handling the package grits, a pound and a half for 15 cents. And yet there are just droves of people who could buy in bulk, who pay these prices in order to get it in a package.

The package serves its purpose; I am not knocking the package people at all. But so long as people are susceptible to that thing I do not know how you are going to accomplish a great deal in that respect.

Representative TEN EYCK. The advertising has accomplished that. The Quaker Oats people have advertised continually their package goods, and have gotten into the minds of the people that they must have that brand.

Mr. KAMPER. But see what they pay for it. We sold bushels and bushels of oat meal in bulk, because the carton was too expensive.

Representative TEN EYCK. But what caused that, on the other hand, was due to the fact that you sold it in bulk, and a lot of these little corner grocery stores kept these grits and oat meal, and such goods in bulk, and permitted them to get wormy and cobwebby, and then passed them out to the customers.

Mr. KAMPER. Right there was an uneconomical method of distribution by the wholesaler. If he had distributed that in a convenient sized package of from 25 to 50 cents instead of 200-pound packages, he would have saved both himself and the retailer.

Representative TEN EYCK. And he gave the Quaker Oats concern and other concerns an opportunity to advertise their package goods and put their common goods on the market in that way, and the public is paying for it.

Mr. KAMPER. And they are paying for it.

Now, there is another article that is important, and that is what I call practically a new industry. That is the sweet potato. The sweet potato is produced at a very low cost per barrel. At times, owing to climatic conditions and other things, there are a good many various sizes of these potatoes. The ordinary farmer down South—I do not think this statement applies with so much force to the Maryland farmer—but our farmer down South will not grade his potatoes, but will ship all sizes in a barrel, ranging from the large edible potatoes to the strings, and all sizes. And when he loads a car of potatoes, he loses considerable, and the consumer loses also, because with, say, 10,000 pounds of good, clean, edible potatoes in a car are loaded these other smaller and inedible potatoes, and that car is loaded at a minimum weight of from 20,000 to 24,000 pounds of freight and charges levied on same. I have seen potatoes come in during February and March that have been properly buried for

the winter, and when they came in and are sold to the retailers they are sold at a loss of 50 per cent. They have to be handled by the wholesaler or retailer, whoever they are consigned to, and he has got to go to the expense of handling them for the purpose of separating the edible potatoes from those that are not good. There is a discrepancy there that can be cured, and is gradually being cured by proper grading. But there is a loss again when they get to the city, because these inedible potatoes have to be hauled off by the sanitary department of the city, which is a burden to the taxpayer, and if the farmer had used them properly they could have been bedded for seed or fed to his hogs or cattle. They make the finest feed for hogs a farmer can get, and with a little attention they make fine feed for cattle.

The CHAIRMAN. There are about 87 varieties of sweet potatoes, I imagine, because we never get the same kind twice.

Mr. KAMPER. If you will put a string on your finger when you go to the grocer and ask for Porto Rican yams, you will get the finest potato that grows, and which yields as high as 250 bushels to the acre. You will eat them all the time if you become accustomed to them.

Coming now to the figures on the meat market, these figures are very, very interesting, because they show a condition which no one but a very experienced meat man understands. Now, when we say that 80 per cent of the retail grocers fail, while I have no statistics, you can take it from me that 92 per cent of the retail meat men fail. Of course, that does not seem possible to one who has to pay for meat.

Now, Mr. Chairman, I want you to turn back several pages, before we start on these prices, to the sheet headed "Percentage of carcass of beef after cutting." I have a picture here somewhere to show you how a carcass is divided up, but I do not just put my hand on it. But this shows you that the butcher can get of chuck, 12.2 per cent; hamburger, 7.76 per cent; rib stew, 6.72 per cent; shoulder, 3.64 per cent; porterhouse, 6.66 per cent; rib roast, 7.32 per cent; flank, 3.17 per cent; suet, 5.66 per cent; bones, 6.4 per cent—that is, the bones he can not sell; that is, not the bones that he does sell—kidney, 0.45 of 1 per cent; soup bone, 2.22 per cent; rump, 3.99 per cent; brisket, 11.12 per cent; round, 12.48 per cent; loin, 8.62 per cent; shrinkage, 1.06 per cent. That is invisible shrinkage; just plain evaporation.

The things most in demand are the rib roast, of which there is 7.32 per cent, and the loin, of which there is 8.62 per cent. The things next in demand are the rump, of which there is 3.99 per cent, and the round, of which there is 12.48 per cent. Now, the balance of the pieces of meat constitute what we term in our business the stew meat, all that class of meat. Of course, marketing conditions are not the same in all parts of the country. Outside of Kansas City and Boston and New York, if you offer a man who knows his business and has the money, what we call in other parts of the United States a porterhouse, he will turn to you and ask you if you call that a select piece of meat. They eat a better grade of meat in Kansas City and Boston than in any other place in the United States.

The CHAIRMAN. I can testify to that. I lived for a year and a half in Kansas City, and they do have the best meats of any place I have ever known.

Mr. KAMPER. Therefore, in making any comparison of retail prices in the country, the Bureau of Labor Statistics ought to bear these things in mind. Now, I want to call your attention to this first sheet. We went up to our food administrator a few years ago and convinced him that to put any fixed price on a certain cut of a carcass of beef would prove a great injustice to the man who was able to buy the better grades of meat and also an injustice to the poor man. We cut up a carcass and showed him—he was a fairly good liver himself—and we asked him if he wanted to pay such a price for these pieces or cuts of meat. And he saw the point, and the Food Administration did not undertake to control the prices of meats.

Conditions vary much in different localities. But these schedules are the schedules of the only successful retail man in the business, and if he can not maintain these schedules under his conditions——

The CHAIRMAN (interposing). This schedule of prices, I take it, represents the prices at which he would have to sell the stuff if he bought it at the prices indicated at the top?

Mr. KAMPER. Yes; if he bought at 16, 17, 18, 19, and 20, and so on, in order to arrive at a gross profit of 24.1 per cent he would have to sell at these prices, in order to arrive at that gross profit on his sales.

The CHAIRMAN. On his gross sales?

Mr. KAMPER. Yes, sir.

The CHAIRMAN. Out of that, of course, would have to come his overhead and everything?

Mr. KAMPER. Yes, sir. Now, we will take 20 cents. Good beef to-day is bringing from 18 to 22 cents a pound per carcass. Of course, you can buy carcasses of beef cheaper, of cows, and old steers, and indifferent kind of stuff, but nobody who is a judge of meat would buy those. I have a meat market in my store, and have had for the last 14 years, but I give you my word that I do not know anything about it, although I am down there for a half hour or an hour every day, but I can not run it. That is a matter that takes more than training. You have to be able to judge a carcass as it hangs up in the four quarters, just how much you are going to get out of it, and a man that can do that is really a genius.

But take the basis of 20 cents here for a carcass, in order to get an average of 24.1 per cent, he would have to sell chuck at 30.5 cents per pound. I do not know of any place in the United States to-day where they are getting that price for good chuck. We do not get it at home. He would have to get 30.5 cents a pound for hamburger. We are selling it at 15 cents a pound, and are glad to get that. He would have to sell rib stew at 12 cents, and I do not know of any place where it is being sold for that. He would have to sell shoulder at 30.5 cents a pound. Porterhouse steak, at 52 cents a pound; and rib roast at 30.5 cents a pound; flank at 8 cents a pound; rump at 30.5 cents a pound; brisket at 12 cents a pound; round steak, at 38 cents a pound; loin, at 44 cents a pound; he would have to get 3 cents per pound for suet. Now, you can not get anything for suet nowadays, because of the value of by-products from the packing houses; there is practically no value to it. At one time we got as high as 6 cents a pound. I think our man to-day is getting us 1 cent a pound for good lean suet, without any bones. He would have to get 1 cent a pound for bones. We don't get anything for bones.

We ask a man if he will not please haul them off. He would have to get 10 cents for the kidneys out of the carcass, and he would have to get 50 cents for the soup bones out of the carcass.

Now, when during the winter carcasses brought as high as 36 cents a pound, he had to get as high as 72 cents a pound for some of his choice cuts of meat. I don't know of any place in the United States, except in New England, where they could get as much as 72 cents a pound for meat. They do get it up there, because those fellows up there are real merchants. It makes no difference to them what they have to pay, they are going to sell on the basis of their overhead and the cost of the article, and make a decent profit, or they do not handle it. With the rest of us it is a kind of a hit or miss proposition.

Representative TEN EYCK. What do you pay for your carcasses?

Mr. KAMPER. From 18 to 22 cents a pound.

Representative TEN EYCK. Now?

Mr. KAMPER. Yes; now.

The CHAIRMAN. How wide a range would there be in the carcass prices now?

Mr. KAMPER. You can buy meat from the packing houses to-day as low as 4 cents a pound by the carcass. The packing houses are losing money on that, of course. The packing houses will cut up these carcasses, and take the short ribs, and the pin bone loins and the loins and ship them to New York, and New York will absorb those up to as high as 10 cents a pound, depending on the demand for them That is one practice.

Now, in our section of the country, and I dare say it prevails up here to the same extent, in order to supply steaks and other cuts that the people demand, the round, and loin, and rib, and porterhouse, we have to buy the hind quarter of the beef, which is, of course, the most expensive. If we could sell the whole carcass, we could sell chucks that come out of the carcass as low as 8 or 10 cents a pound. But the only thing we could get our money out of would be the 16 or 18 or 20 pounds of rib in the front quarter, depending on the size of the quarter. The balance would be stew meat, or hamburger, and we can not sell that during the hot months to our trade.

Representative TEN EYCK. What is the practice now with reference to a meat dealer in one locality selling his better cuts of meat to a dealer in another locality who can sell his trade the better cuts? I don't know whether that practice has been discontinued or not.

Mr. KAMPER. That isn't discontinued, but it is conducted a little differently now. The packing house puts a master butcher into its cooler at the various places, and the man that buys meat who does not want the cheaper cuts will get something else in place of them, and it is up to that master butcher to adjust the price so that the packing house once a week will be able to strike an average of the price they want for the carcass.

Representative TEN EYCK. That is done at a central location now, rather than through an exchange among the butchers?

Mr. KAMPER. Yes; and it is very much better for everybody.

Representative TEN EYCK. Yes, undoubtedly.

Mr. KAMPER. Here is the trouble with the meat situation right now. Armour & Co. get out a statement, as do Swift & Co. That shows more graphically than I can tell you. That shows that in May, 1920, the sale price of by-products from one steer was $25.41,

while in May, 1921, the sale price of by-products from a steer was $7.48. The most of this goes into fertilizers, and I doubt whether they realized that much. In other words, if he realized it it was less the discounts.

Representative TEN EYCK. What percentage of the carcass goes into by-products?

Mr. KAMPER. Roughly speaking, 45 per cent. In other words, a 1,000-pound steer will dress out about 550 pounds, and the other 450 pounds is offal, and the hide, and so on; out of the offal and fats they make fertilizer and soap, and everything else out of that. That shows very graphically. He makes the statement here that the price to the producer of livestock has decreased 35 per cent, and the decline in meat and by-products was 34 per cent. Of course, that was his purpose, to show that he was not robbing the producer, as has been charged, and I think that very largely clears up that point.

The CHAIRMAN. We will put this in the record.

(The paper referred to is here printed in full, as follows:)

Beef "on the hoof" and "on the hook."

1,000-pound steer, yielding 550 pounds of beef.	May, 1920.	May, 1921.	Decrease.	Percentage decrease.
				Per cent.
Live cost	$117.90	$76.30	$41.60	35
Packing-house meat expense	7.21	6.27	.94	13
Net value of by-products	25.41	7.48	17.93	71
Sale price of beef at packing house	100.70	76.09	24.61	25
Sale price of beef per dressed hundredweight	18.31	13.83	4.48	....
Decline in price of meat and by-products	....	....	42.54	34
Decline in live cattle price	....	....	41.60	35

Here are some interesting figures on comparative live-stock and meat prices for 1920 and 1921.

Examination of the chart above and the figures on the sides of the page prove conclusively the close relationship that exists between the cost of live animals and the selling prices of manufactured products therefrom.

The average producer of live stock and the average consumer of meat, in making comparisons of prices for the same period, would find that live-stock prices declined an average of $41.60, or 35 per cent, while meat prices show only a decline of $24.61, or 25 per cent.

Why the discrepancy? Why didn't the decline in price of "beef on the hook" keep pace with the live stock decline? Why did the price of live animals decline 35 per cent, while the wholesale price of beef declined only 25 per cent?

Swift & Co. is able to obtain only 550 pounds of meat from the average 1,000-pound steer. The other 450 pounds are made up of hide, fats, and waste. In May, 1920, there was considerable value to this by-product material, but in May, 1921, it declines in value $17.93, or 71 per cent, more than double the live animal decline and nearly three times the dressed-beef price decline.

In other words, approximately one-half of the steer brought only about one-fourth of what it had brought the year before.

The figures show that the total decline in the values of the beef "on the hook" and of the by-products was $42.54, or 34 per cent, which approximately balances the decline in costs of animals "on the hoof," which was $41.60, or 35 per cent.

Representative TEN EYCK. Mr. Kamper, would you mind telling us what you are getting for the different cuts of meat?

Mr. KAMPER. I will be very glad to.

The CHAIRMAN. You can get from Mr. Kamper anything he has.

Mr. KAMPER. I have learned a lesson, that when you go to the Government authorities in an open, frank manner, they are going to treat you accordingly. If you try to hide anything, you will find out that you have not hidden it. Anything I know I will be glad to tell you. Although this is a pretty big problem, trying to handle 38 per cent of the people's money—but anything I have is at your service.

Now, you take this illustration, and if you will make a pencil notation there on the schedule of prices on the basis of prices paid—take 22 cents, for example—that is what our average cost has been lately, because we have had to buy so many extra hinds and things of that kind. For chuck we get about 24 cents; for hamburger we get 15 cents; for rib stew we get about 12½ cents, and for shoulder about 24 cents; for porterhouse steak 55 cents, for rib roast 30 cents, for flank—I don't know what we do get for that now, but put that at 12½ cents, although I think that is more than we actually get out of it. It depends, I think, on your customer and on circumstances. For rump we get about 30 cents, for brisket about 12½ cents, for round about 38 cents, for loin about 40 cents, for suet about 1 cent, and for bones we do not get anything, for the kidney we do not get anything and for the soup bones we can not get over 20 cents out of those at this time of the year; in other words, I know from the monthly report we make in our market that we are not averaging as much as that during the summer months. In the winter months we can do that, because we can sell the stewing meats, and the hamburger and things of that kind. But we can not do that in the summer months, and we have about seven months of summer weather down there, and about five months of cool weather.

The CHAIRMAN. In other words, the people do not buy anything to roast or boil in the summer months?

Mr. KAMPER. No; they want something they can put in the skillet and prepare right quick.

Representative TEN EYCK. Can you, in your market, get out of a carcass the percentages that you have set down here?

Mr. KAMPER. No, sir; that is an ideal.

Representative TEN EYCK. That is what I wanted to bring out.

Mr. KAMPER. Yes; that is an ideal. We may do it some months, but take it from January to January, we can not do it.

Now, here is another thing, and this is a point that is generally misunderstood. This is the price of hams based on tests made on November 29, 1918. The ham market to-day, on this basis here, is from 32 cents to 36 cents on high-grade skinned hams, and that is the only kind that it would pay a butcher to cut. At 36 cents, in order to average this percentage, we would have to get 60½ cents a pound for the best cuts. At 32 cents a pound, we would have to get 53 cents for the best cuts. There is the cost. The cost price here, and the sale price has to run here mighty nearly 100 per cent above the cost price in order to get an average of around 20 per cent. That is one thing that very few people understand. There is so much shrinkage in a ham.

The CHAIRMAN. Where does that shrink come in; on the end of the ham?

Mr. KAMPER. At both ends of the ham. And then if a man is not very skilled in cutting a ham, he can cut a ham in a certain way and

waste a great deal more. If a man is skilled, he can cut it so as to get more out of it. That is a very strange thing. I have observed expert men cutting hams. You take the general run of men—you know the shape of a ham—and the average man would say this is the way to cut it, this way [indicating]. The expert goes across here [indicating] with diagonal slices. He cuts off a half pound, which is absolutely wasted, and then he comes this way [indicating], and works it that way [indicating], and he gets more desirable slices, and really gets from a half pound to three-quarters of a pound more out of a 16-pound ham by cutting it that way. Here is the hock here [indicating], and he begins this way [indicating]. I dare say, if Armour or Swift would conduct a school for meat cutters—and, by the way, I am trying to get Edward Morris to start one—and you should take 100 men from your city here to go and cut a ham, the chances are that they would all start to cut it this way [indicating]. The question is, Who pays for it? The producer pays for it in a way, and the merchant and the consumer also pay for it, in a way.

The CHAIRMAN. The whole thing seems to come down to the proposition that none of us know quite as much about our business as we ought to.

Mr. KAMPER. In other words, it is too easy to get in and mighty nearly as easy to get out.

The CHAIRMAN. The schedules you have used here to illustrate this may go into the record.

(The schedules and tables referred to are printed in full, as follows:)

Schedule of prices.

CARCASS PRICE BASIS.

	16	17	18	19	20	21	22	23	24	25	26	27	28
Chuck	24½	26	27½	29	30½	32	33½	35	36½	38	39½	41	42½
Hamburger	24½	26	27½	29	30½	32	33½	35	36½	38	39½	41	42½
Rib stew	9½	10	11	11½	12	12½	13	14	14½	15	15½	16	16½
Shoulder	24½	26	27½	29	30½	32	33½	35	36½	38	39½	41	42½
Porterhouse steak	41½	44	47	49½	52	54½	57½	60	62½	65	67½	70	72½
Rib roast	24½	26	27½	29	30½	32	33½	35	36½	38	39½	41	42½
Flank	6	6½	7	7½	8	8½	9	9	9½	10	10½	11	11
Rump	24½	26	27½	29	30½	32	33½	35	36½	38	39½	41	42½
Brisket	9½	10	11	11½	12	12½	13	14	14½	15	15½	16	17
Round	31	33	35	37	38	40	42	44	46	48	50	52	54
Loin	35	37	39½	42	44	46	48½	51	63	55	57	59	61½
Suet	3	3	3	3	3	3	3	3	3	3	3	3	3
Bones	1	1	1	1	1	1	1	1	1	1	1	1	1
Kidney (per carcass)	10	10	10	10	10	10	10	10	10	10	10	10	10
Soap bones (per carcass)	50	50	50	50	50	50	50	50	50	50	50	50	50

Average gross profit, 24.1 per cent.

Percentage of carcass of beef after cutting.

	Per cent.		Per cent
Chuck	12.20	Kidney	0.45
Hamburger	7.76	Soup bone	2.22
Rib stew	6.72	Rump	3.99
Shoulder	3.64	Brisket	11.12
Porterhouse	6.66	Round	12.48
Rib roast	7.32	Loin	8.62
Flank	3.70	Shrinkage	1.06
Suet	5.66		
Bones	6.40	Total	100.00

Test on ham by Kistner's market.

Weight, 15 pounds 15 ounces, at 37½ cents	$5.97
12 pounds, at 55 cents	6.60
2 pounds 11 ounces hock, at 20 cents	.54
Total	7.14
Profit (16.38 per cent)	1.17

Loss in cutting (bones and trimmings), 7.45 per cent.

Schedule of prices.

SHORT LOIN.

	30	31	32	33	34	35	36	37	38	39	40
Porterhouse steak	$0.52½	$0.54	$0.56	$0.58	$0.59½	$0.61	$0.63	$0.65	$0.66½	$0.68	$0.70
Pin bone steak	.40½	.42	.43	.44½	.46	.47	.48½	.50	.51½	.52½	.54
Flank	.16	.16½	.17	.17½	.18	.18½	.19	.19½	.20	.20½	.21
Tallow	.07	.07	.07	.07	.07	.07	.07	.07	.07	.07	.07
Bones	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02	.02

	41	42	43	44	45	46	47	48	49	50
Porterhouse steak	$0.72	$0.73½	$0.75	$0.77	$0.79	$0.80½	$0.82	$0.84	$0.85½	$0.87½
Pin bone steak	.55½	.56½	.58	.59½	.60½	.62	.63½	.64½	.66	.67½
Flank	.21½	.22	.22½	.23	.23½	.24	.24½	.25	.25½	.26
Tallow	.07	.07	.07	.07	.07	.07	.07	.07	.07	.07
Bones	.02	.02	.02	.02	.02	.02	.02	.03	.02	.02

Average gross profit, 25.3 per cent.

LEG OF VEAL.

	20	21	22	23	24	25	26	27
Round	$0.37	$0.39	$0.41	$0.43	$0.45	$0.47	$0.49	$0.51
Loin	.37	.39	.41	.43	.45	.47	.49	.51
Porterhouse steak	.37	.39	.41	.43	.45	.47	.49	.51
Trimmings	.07	.07½	.08	.08	.08½	.09	.09	.09½
Rump roast	.30	.31½	.33	.34½	.36	.37½	.39	.40½
Lean meat	.30	.31½	.33	.34½	.36	.37½	.39	.40½
Bones	.02	.02	.02	.02	.02	.02	.02	.02

	28	29	30	31	32	33	34	35
Round	$0.53	$0.54½	$0.56½	$0.58	$0.60	$0.61½	$0.63	$0.64½
Loin	.53	.54½	.56½	.58	.60	.61½	.63	.64½
Porterhouse steak	.53	.54½	.56½	.58	.60	.61½	.63	.64½
Trimmings	.10	.10	.10½	.11	.11½	.11½	.12	.12½
Rump roast	.42	.43½	.45	.46½	.48	.49½	.51	.52½
Lean meat	.42	.43½	.45	.46½	.48	.49½	.51	.52½
Bones	.02	.02	.02	.02	.02	.02	.02	.02

Average gross profit, 24.3 per cent.

HINDS.

	20	21	22	23	24	25	26	27	28	29
Porterhouse steak	$0.45	$0.47	$0.49	$0.51½	$0.53½	$0.55	$0.57½	$0.60	$0.62½	$0.65
Loin steak	.40	.42	.44	.46	.48	.50	.52	.54½	.57	.59
Round steak	.35	.37	.39	.41	.43	.55	.47	.49	.51	.52½
Rump roast	.31	.32	.34	.35½	.37½	.40	.41½	.43	.45	.46½
Hamburger	.28	.29	.30½	.32	.33½	.35	.36½	.38	.39	.41
Shin bone (total)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Flank steak	.28	.29	.30½	.32	.33½	.35	.36½	.38	.39	.41
Kidney (total)	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10
Suet	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03
Scraps and bones (total)	.15	.15	.15	.15	.15	.15	.15	.15	.15	.15

Schedule of prices—Continued.

HINDS—Continued.

	30	31	32	33	34	35	36	37	38
Porterhouse steak	$0.67½	$0.70	$0.72	$0.74½	$0.76	$0.78½	$0.31	$0.83	$0.85½
Loin steak	.60½	.63	.65	.67	.69	.70½	.73	.75	.77
Round steak	.54	.55½	.57½	.59½	.61½	.63	.65	.67½	.69½
Rump roast	.48	.49½	.51	.52½	.54	.55½	.57½	.59	.60½
Hamburger	.42	.43½	.45	.46	.47	.49	.50½	.51½	.53
Shin bone (total)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Flank steak	.42	.43½	.45	.46	.47	.49	.50½	.51½	.53
Kidney (total)	.10	.10	.10	.10	.10	.10	.10	.10	.10
Suet	.03	.03	.03	.03	.03	.03	.30	.03	.03
Scraps and bones (total)	.15	.15	.15	.15	.15	.15	.15	.15	.15

Average gross profit 25.6 per cent.

Sale price on bacon based on test made Nov. 29, 1918.

Cost.	Sell.	Profit.	Cost.	Sell.	Profit.	Cost.	Sell.	Profit.	Cost.	Sell.	Profit.
		P. ct.			*P. ct.*			*P. ct.*			*P. ct.*
$0.30	$0.42½	25.7	$0.36	$0.51	25.2	$0.41	$0.58	25.1	$0.46	$0.65½	25.8
.31	.44	25.6	.37	.52½	25.2	.42	.59½	25.3	.47	.66½	25.4
.32	.45½	25.4	.38	.54	25.4	.43	.61	25.5	.48	.68	25.4
.33	.47	25.2	.39	.55	25.0	.44	.62½	25.7	.49	.69½	25.5
.34	.48½	25.6	.40	.56½	25.2	.45	.64	25.6	.50	.71	25.5
.35	.50	25.4									

Test on bacon by Kistner's market.

Weight, 6 pounds 6 ounces, at 51 cents	$3.25
Cut, 6 pounds, at 60 cents	3.60
Ends, 2 ounces, at 20 cents	.02
	3.62
Profit (10.46 per cent)	.37

Loss in cutting, 3.92 per cent.

Sale price on ham based on test made Nov. 29, 1918.

Cost.	Sell.	Profit.	Cost.	Sell.	Profit.	Cost.	Sell.	Profit.	Cost.	Sell.	Profit.
		Per ct.			*Per ct.*			*Per ct.*			*Per ct.*
$0.20	$0.32	25.0	$0.26	$0.42½	24.9	$0.31	$0.51½	25.1	$0.36	$0.60½	25.2
.21	.34	25.5	.27	.44½	25.1	.32	.53	24.7	.37	.62	24.9
.22	.35½	24.9	.28	.46	25.0	.33	.55	25.0	.38	.64	25.2
.23	.37½	25.3	.29	.48	25.2	.34	.57	25.3	.39	.65½	24.9
.24	.39	24.8	.30	.49½	24.8	.35	.58½	24.9	.40	.67½	25.2
.25	.41	25.2									

Hock to sell at 20 cents.

Mr. KAMPER. Now, there is one other thing that I want to insert into the record. The question is asked of Mr. Melvin T. Copeland, director of the bureau of business research of Harvard University, "Are small stores expensive?"

Now, it is not necessary to read all of this, but I would like to read this paragraph. [Reading:]

Answering your recent letter with inclosed newspaper clipping, I am sending you a marked copy of our Bulletin No. 13, and wish to call your attention especially to our statements on pages 15 and 16. I am not familiar with the investigation referred to in your clipping, so I can not judge the reasons for the difference between their

conclusions and the results that our investigations have indicated. Possibly our investigations have not covered a sufficiently large number of stores throughout the country to be conclusive, but so far in the retail grocery trade, and also in most other retail trades, we have found that when the small store is well managed it is operated as cheaply as the larger stores and store systems—and sometimes at even less expense. Personally I have come to the conclusion that the small store is able to hold its own under sound, progressive management.

Representative TEN EYCK. I would like to ask one other question as regards meat: What is the size of carcass that you feel is the most economical size to buy for cutting up for your retail trade?

Mr. KAMPER. Well, we change that a little bit in the different seasons, owing to the demands of the trade. In the warm weather, when the people want mostly steaks and small roasts, we would rather have a carcass that would dress out around 400 pounds. In the winter time, if the carcass is properly filled out, and the right quality, and corn fed, we do not object to a carcass weighing as much as 500 pounds.

Representative TEN EYCK. That would come from a steer weighing about 1,000 pounds.

Mr. KAMPER. Yes; probably a little less than 1,000 pounds.

Now, in order to get a desirable loin or rib for the Boston or New York market, such as is popular now, they have to use the large cattle. Of course, they get a high enough price for that to reduce their price for the carcass, even if it is high quality, so that the packer can can or corn what he can not sell as fresh meat. Of course, there has not been any opportunity for the packer to do anything of that kind for some time, on account of the immense amount of surplus meats that have been dumped onto the market. The packers are commencing to can again.

Representative TEN EYCK. Your trade is the average trade of the country?

Mr. KAMPER. No; our trade is a high-class trade.

Representative TEN EYCK. I mean, an average high-class trade of the country?

Mr. KAMPER. Yes, sir.

Representative TEN EYCK. But not a trade like Boston or New York or Chicago, that demand the large cuts?

Mr. KAMPER. No, sir.

There is another thing that I would like to mention before I conclude. I do not want to take too much of your time.

The CHAIRMAN. Go right ahead; you are giving us information on a lot of things.

Mr. KAMPER. I have an article here from the Interstate Grocer of August, 1913, in relation to the effect of freight rates on canned goods. If you do not put the whole thing in the record, I will summarize by reading a table of percentages which appears here. Personally, I have not checked them, but I know the man who made them did so with a sincere purpose. From the knowledge I have, myself, I know that the figures are approximately correct. [Reading:]

To show how freight actually does enter into the equation of food prices, the following table on 10 selected items is subjoined.

Now, before I read that, I would like to make the statement that freight is actually a part of the cost of food. A man who is running a store like a dry goods store, where they can charge a part of their

expense as freight, is in a different position. But the retail grocer, if he buys a dollar article and pays 25 cents freight on it, it costs him $1.25, and he has to boost his selling price to get it to what it costs him to get it in his house, and that will be appreciated in view of this statement here. Now, he adds a table, which shows the following results: On canned corn from Maine, the selling price of the corn per can would be 20 cents, and the freight cost per can would be 0.0186, or the freight would amount to 9 per cent of the selling price. On Maryland canned tomatoes selling at 10 cents a can, the freight cost would be 0.017 per can, making the freight cost 17 per cent of the selling price. On canned peaches from California, the selling price per can would be 29 cents, and the freight cost per can would be 0.035, making the freight cost 11.07 per cent of the selling price. On canned salmon from Washington the selling price per can would be 11 cents, and the freight cost per can would be 0.021, making the freight cost 19.09 per cent of the selling cost.

On sugar from Louisiana selling at 7 cents a pound the freight cost $0.0087 per pound, making the freight cost 12.43 per cent of the selling price. On rice from Louisiana selling at 7 cents per pound the freight cost is $0.007 per pound, making the freight cost 10 per cent of the selling price. On flour from Minneapolis selling at 5 cents per pound, the freight cost is $0.0033 per pound, making the freight cost 6.6 per cent of the selling price. On raisins from California selling at 35 cents a pound, the freight cost is $0.027 per pound, making the freight cost 7.71 per cent of the selling price. Navy beans from Michigan selling at 6½ cents a pound, the freight is $0.0062 per pound, making the freight charges 9.63 per cent of the selling price. On vinegar from New York selling at 50 cents per gallon, the freight is $0.063 per gallon, making the freight charges 12.6 per cent of the selling price.

The CHAIRMAN. Is this in any particular location?

Mr. KAMPER. He is giving this as a statement given out by the Pennsylvania Railroad Co., and he is quoting some locations around St. Louis. This is published by a St. Louis paper, and this is around St. Louis.

Now, coming back to that freight that I gave you on eggs on less than carload lots, that freight amounts to 3 cents a dozen.

Now, here is a typical illustration of a thing that happened last year. At Fitzgerald, Ga., which is 350 miles below Atlanta, and below the frost line, except in very cold weather, there is a widow lady who is a very progressive farmer, in my opinion. She owns 25 acres of land and cultivates that and about 25 acres more. She comes up to Atlanta every year and tries to find out what will be in demand. She is doing some very scientific work along that line. She comes up to Atlanta and tries to find out what the daily market will be on certain classes of vegetables. She found out from us and the wholesale people that there would be a good, active demand for bunch turnips. She got approximately the size that would be desired, and she went to the seed house and bought her seed, and went home and raised her turnips and shipped them to Atlanta in the most economical way she could ship them—in sugar barrels, which would hold around 5 dozen bunches. We paid her 40 cents per dozen bunches for those turnips. Somebody in her neighborhood saw what she was doing and tried to get some of the business, but they could not buy the turnips from

her, as she had made her arrangements to supply a certain number of bunches each day. The other people looked around for a place to get turnips and found they could get some in the neighborhood of New Orleans, and they made arrangements to ship turnips from New Orleans, I think about 500 miles away. And they found when they began to ship them that they could lay them down for 32 cents a dozen bunches. She was paying 40 cents a dozen bunches on a less haul. Our rate to her was 49 cents per dozen bunches f. o. b. Fitzgerald.

In other words, on approximately a 50 per cent less haul on those turnips, there was a 50 per cent greater express rate. Now, we appealed to the local State railroad commission, but could not get any relief. What was the result? Our firm alone paid the express company and this woman on turnips and turnip salad—this seems like a large amount, but we eat turnip salad like you people here eat spinach, for greens—we paid that lady in December, January, and February, for turnips and turnip salad, a little over $6,000, and we paid the express company not quite $6,000, because the express rate was a little less on salad than she got at the time. This lady apparently had a prosperous season, but she came up to Atlanta the other day and wanted me to help finance her for this year's crop.

Now, that situation is a very unfortunate one, and is typical of others, and shows what the express rates are doing to other large sections.

Representative TEN EYCK. I do not quite understand what you mean. Do you mean to say you paid that express?

Mr. KAMPER. We paid the express and paid this lady. We handed her about $6,000, and we paid the express company approximately the same. But what I want to drive home is that the lady did not make any money; and the other thing is that the people in Atlanta paid a high price for turnips. We jobbed some of them to other concerns. And then another thing is that there is no consistency between the rate from these points. From New Orleans to Atlanta it was interstate business, and from Fitzgerald to Atlanta it was intrastate.

The CHAIRMAN. Until recently there has not been much consideration given to production centers; nobody has had any data as to where the production centers were.

Mr. KAMPER. That is true; consequently the freight bore no relation whatever to the production centers, and the consuming centers. You can not make up any freight rates until they have reference to the places where the stuff is produced.

The CHAIRMAN. And that has not been available until recently.

Mr. KAMPER. But in this case, if the freight had been figured on the mileage basis, there would have been a more equitable rate anyhow.

Representative TEN EYCK. That is a matter that has got to come, the matter of regional rates.

Mr. KAMPER. Now, another thing that has affected the food, and has been acute at times in the last two years, and is now, in the minds of some people acute. That is the question of Government control, and the question of markets. What I mean by markets, is retailers, producers, and curb markets, and terminal markets—I do not want to go into that, because that is a subject all by itself, but

so far as the terminal market is concerned, the grocers would welcome anything like that, because that would give the retailer a chance to purchase goods under competitive conditions, and that is the only real condition. And it would enable the producer to sell his goods on a high market, or any other way. We have that condition existing to a certain extent in the fruit auctions in New York City, and some others.

So far as the retail curb market is concerned, I believe the retail grocers of the country believe those are good things, so long as they are inexpensively conducted and operated, effecting a saving to the consumer. But when you get to the municipal market buildings, whether in the Government, or state, or city or town, I believe they are really undertaking something that is a great loss to them. Right here in Center Market, in Washington, the prices are as high, and the services rendered about as numerous as in a grocery store. The only possible advantage there is, is a little wider variety to select from, and the consumers do not really get any value out of that market. And the history of the whole market proposition from Europe down to here proves that. France, Paris, has $18,000,000 invested in markets that were built shortly after the eighteenth century. Berlin has a tremendous investment of $30,000,000 invested a few years after that. What have they done with them? One market is operated in Paris, or partly operated, and the others are turned into stables for cavalry. I just want to interject that, because some people think that is a solution of the whole food problem.

Before I get away from the freight rates, it is not improper for me to say that the retail grocers are bitterly opposed to a consumers' tax; that is, if that tax is to apply on foods. And while this is not the place to talk of it politically, and while we are not interested in politics here, I believe it will be the death knell of any political party that undertakes it. I do not believe that any party, Democratic or Republican, can afford to undertake a proposition of that kind, particularly when you take in view the fact that Mr. Hoover brought out in his administration—and he gave more attention to it up to that time than anyone else that we know of—that there are in the majority of instances from four to five and eight handlings of food before they finally reach the ultimate consumer. Only in rare instances can the man who produces the stuff sell it to the man who actually eats it.

If a customer comes in and wants to buy, say, 25 cents worth of potatoes—you take the figures I have given you of 3 per cent, and the Harvard figures give it only 2 per cent, and you can see that the grocer can not pay that, if he gets only 2 per cent. So when the little girl comes to the store and wants 25 cents worth of potatoes, he has to charge her 1 cent tax on the 25-cent purchase. So to get the potatoes from the farmer who raised them to the wholesaler, and in many instances another wholesaler, and then to the jobber, and to the retailer and from the retailer to the ultimate consumer makes five handlings, and you can see what the sales tax would amount to. I know what I am talking about. You take the city of Atlanta, a town of 204,000 people, and in a radius of 40 miles there are about 500,000 people. Practically everything that comes to Atlanta comes in carloads and is distributed to the wholesalers and jobbers and through the peddlers and retailers out to the prople, and you will

find that you have an average of five handlings, or five transactions to get the northern potato, the Indiana, or New York potato, to the people in that vicinity; that is, there are about five transactions before it gets to the ultimate consumer. That tax will be a burden on the poor people which will be unbearable.

There is another thing that I think is expressed very clearly in an article in the Saturday Evening Post of August 13, 1921, by Robert Crozier Long, than anything I have seen in recent issues of the papers. There was also an article in the Country Gentleman recently, but I do not have that here. This article is entitled "Germany's new peace offensive." I will not read this except that I want to emphasize this fact [reading]:

> As long as the war lasted the State could not afford to think of the future. It regulated food with the immediate aim of feeding the population cheaply, and it achieved success, in that home-produced, maximum-priced wheat costs one-third the price of American wheat. But because no country is as cheaply fed as Germany, no country is as ill fed. Farmers turned from the State-controlled, maximum-priced crops, which were also the most necessary, to crops that could be sold in the free market. Fertilizers were dear, and farmers refused to buy them.

The thing I want to emphasize is that the farmers did not produce the things that were controlled by the State. And this terrific starvation plea that you read about in reference to Russia was brought about, so I have read in a recent article in the Literary Digest, I think it was, because the farmers would not produce the things that the soviet government controlled. They produced other things. And then as soon as the ban was released, the things that were scarce in Warsaw and Moscow and other places were very abundant. We have an illustration at home of that in our sugar situation here.

Representative Ten Eyck. Let me ask you: You have spoken of eight or ten turnovers between the producer and the consumer; do you think that some of those could be cut out by proper marketing conditions, either by the cooperation of the producer, thereby getting closer to the distributors——

Mr. Kamper (interposing). In one particular instance I think one distributor ought to be eliminated. Mr. Hoover did eliminate him; and that is what is known as the speculative broker. A broker is a necessary part of the distributing machinery, but the broker who is a speculative broker ought to be eliminated. Whether you can cut out the turnovers outside of him, I don't know. But I am sorry of one thing: We would all be better off if the farmers or producers marketed their products more efficiently. In other words, they can cut out some waste if they market their products somewhat after the fashion of the California associations. However, I do not think the laws controlling those associations are sufficient at the present time. They are human, like the balance of us, and there has been an abuse of their privileges. Under the Sherman Law they can not be touched. We have seen that in the raisin situation last year, and year before last. But with modifications, that thing is worth a great deal.

The Chairman. In other words, where a monopoly is legalized, it is subject to the same abuses as any other monopoly?

Mr. Kamper. Yes; and they are the same kind of folks as any of the balance of us.

Here is a splendid article in "System," by Neil M. Clark, entitled, "What's Wrong with Distribution?" Mr. Paull knows about this

article, so it is not necessary to go into it, except to speak of one thing. Here is a company that is mentioned in the article, and if I may, Mr. Chairman, I would like to read a part of this article which refers to this one thing. [Reading:]

This company started with a policy of selling to the large retailers of the country—merchants, in other words, who could provide large outlets and were within reasonable traveling distance of the factory. Very soon two objections to this policy arose: (1) There was a perpetual and large traveling expense, and (2) a large overhead had to be paid for the office and shipping departments.

In the words of one of the executives of the company:

"This condition led us to study the wholesale business, and after close analysis we determined to go into it—with reservations. We decided that unless we found some way to protect the wholesaler against avoidable duplication of territory, and against the buyer who would use our line as a football, we could not hope for wholesale cooperation which would make for success.

"Building from this foundation, we established a policy of trying to select our wholesalers as if we were picking agencies to open branch territory. We tried to sell the wholesalers, who were big business merchandising. Except in the very large cities, we sold but one house and stayed away from buyers who were recognized price cutters or unfair in their business methods.

"As can be expected, this was not worked out in a day, nor did we fail to make mistakes. Our net result, though, has been to build up a selected list of distributors with whom a high degree of cooperation is maintained.

"HOW DIRECT DISTRIBUTION STACKS UP WITH DISTRIBUTION THROUGH JOBBERS.

"Traveling has been reduced to limited periods at the opening of each season's lines, and for years two men have sold our plant to capacity. Office details, and the correspondence of a business running into the millions yearly, are handled by half a dozen people.

"Obviously, the saving in sales expense and overhead has brought down costs—brought them down to a point where we have been enabled for years to challenge consistently a price comparison with any line of equal quality.

"One swallow does not make a summer, nor would we quote the following incident were it not typical. When we were going direct we had a 50-50 cotton and worsted garment which we sold at $21. With the swing to wholesaling we produced it at $13.50, with the same margin of profit, and the wholesaler sold it in turn at $18, so that it reached the retailer at $3 less than our 'direct' price."

I think Mr. Paull is much more competent to talk on that than I am, because he understands it in a large way.

Mr. Chairman, I am going to ask to put into this record the objects of the national association, for the simple reason that some people think we are a price association and work to that end. We do not do any such thing, and I would like to have you have these before you.

The CHAIRMAN. Without objection, they may be inserted in the record.

(The matter referred to is here printed in full, as follows:)

OBJECTS OF THE NATIONAL ASSOCIATION OF RETAIL GROCERS.

Our watchword: The grocery business for grocers.

Our slogan: Equal opportunity for all.

Our aim: Constant improvement of an essential service.

The following is a detailed outline of the objects of the national association. With these before us as our chart—directing our efforts to attainment of our watchword—our slogan and our aims, we can look forward to a logical and practical functioning of an essential and worth-while undertaking, which is what is wanted by all concerned.

1. To unite in cooperation every retail grocer in the United States through active and effective affiliation with State and local associations of retail grocers.
2. To coordinate the efforts of these State and local associations so the best interests of the retailer may be efficiently served.
3. To maintain friendly and equitable relations with the various factors engaged in the production, manufacture, and distribution of food.
4. To persistently stand for a square deal for the retail grocer.

5. To encourage intelligent merchandising methods and intelligently stamp out questionable and unfair practices in all branches of the grocery business.

6. To promote fair and honorable competition and aggressively oppose the opposite kind which is as detrimental to the consuming public as it is to all the factors of food distribution.

7. To stimulate the spirit of better service so that the wisdom, economy, satisfaction, and community benefit of consistent dealing with the dependable resident grocer may be emphasized and continuously demonstrated to the consumer at all times.

8. To strive to inculcate the adoption of improved business methods so that the retail grocer may be the good business man demanded by the requirements of the grocery business.

9. To develop a higher degree of efficiency in grocery employees through more careful training in all branches of the business.

10. To foster favorable legislation and effectively oppose all detrimental proposals.

11. To constantly aim and persistently work to establish more reasonable business hours.

12. To vigorously oppose Sunday selling and definitely promote legislation where necessary to accomplish an effective abolition of this practice.

13. To take our proper place in the business world—fully maintain our integrity in all situations and so elevate the grocery business that the very best type of young men may be attracted to the trade.

14. To plan so wisely, build so carefully, and operate so effectively that we may develop an organization of such increasing usefulness that the association may truly be regarded as an aggressive, practical, and efficient agency for the safeguarding of the retail grocers' best interests.

15. To publish a monthly magazine, called the "National Grocers Bulletin," to promote and help accomplish the objects set forth.

16. To impose upon all officers, when assuming official connection, the responsibility of definitely advancing these objects in every possible manner during their incumbency.

17. And, finally, may our activities prove of such indispensable and efficient value to the retail grocery business that grocers everywhere will seek connection with the National Association of Retail Grocers and display with pride an emblem of membership in the most prominent place in their stores.

These are the things we want to do. For the purpose of getting the desired and necessary results, various methods must be employed to obtain definite action on specific matters—but fundamentally this outline will cover the field of our aims. We will be absolutely within these objects in every effort designed to fight and oppose unfair practices detrimental to the independent retail grocers' interests, as well as in the promotion of those activities that will strengthen our business in the commercial world. Think this over.

The CHAIRMAN. Do you have—I do not know what you call them—but some sort of buying association, buying in larger quantities?

Mr. KAMPER. Wholesale cooperative merchandising houses?

The CHAIRMAN. Yes.

Mr. KAMPER. Well, I am ashamed to tell you what I know about them. I have been a member of one that is now defunct, and am out some money. It is interesting, however, to know the causes surrounding that. These houses are existing with more or less success in various sections of the country. Their idea has been that they could employ a management and finance themselves and sell on the basis of 3 per cent. I tell you that is impossible, because there is one thing that I wanted to bring out with this gentleman who sat over here [Representative Mills] that no difference how competent you are in saving your expenses, you have got to take into consideration the hazards of the market, and if a man does not take those into consideration, he is going to fail. A large number of these houses have failed. As long as the market was advancing and they would take a little here and a little there on an advancing market, they were making a success. But the last figure that I know of it was costing at least 4 per cent to operate them, without taking into consideration the hazards of the market. They are supposed to accom-

plish one thing, and I think good jobbers could accomplish the same thing. They are supposed to reduce the cost of the wholesaler's selling price of his goods.

If you had these bulletins of the wholesale system, which I would be very glad to give you for your files—they belong to the Southern Wholesale Grocers' Association—it will be found that the wholesaler pays on a percentage basis. The total sales force expense amounts at the common to 2.3 per cent to 4.3 per cent in the wholesale grocery houses.

The CHAIRMAN. The difficulty with the proposition, I take it, is simply this: If you give the retailer, or if you are representing a producers' organization, all that you make when things are lovely, and prices are going up, and you are making something, you haven't anything to give him when things are not so lovely and prices are going down. And you have got to get back and overcome what your losses were.

Mr. KAMPER. Yes; and that is the weakness of it. The fellow saving money on his selling expenses can not save all of it. You have got to have somebody spending their time taking orders, and selling goods. It is a peculiar thing when you have a lot of men who have money in a concern and want to see it a success, and spend their time night after night going over the problems trying to see where they can sell. You take even the advertised articles—they have got to be sold, in some form of specialized sales work. So they do not even save that average of 2 or 3 per cent. They may be a little more efficiently run, so far as finances are concerned, than the average wholesale grocery, because the individual bears his part of the service. The jobber has to take care of all of that. Very frequently they bear their own expenses, so far as deliveries are concerned. However, that is a situation that is brought about and will not be cured until the jobbers wake up. The jobbers brought about the whole situation by giving preferential treatment to a large number of well-known chain stores.

The time is coming, Mr. Chairman and gentlemen of the commission, I do not know how soon, but the time is coming when either the public or the manufacturers are going to have to combine and legislate against operators of a large number of chain stores, the same way as you consider the Big Five packers as being a menace. What have you now? You have one organization with, I think, 4,000 stores, and have other organizations with as high as 1,000 or 1,500 stores, and they have gone into an association, with the former secretary of the National Wholesale Grocers' Association at the head of it, and the statement has been made in the press that they will buy, manufacture, and produce their own products.

Now, suppose they get to the point that they can absolutely control the market on any one thing. You might say that in a certain situation they could control the market on sugar, or on imported teas and coffees, and things of that kind. You would have a situation then as much opposed to democracy as the situation regarding the packing houses. While they handle approximately 17 per cent of the total volume of business at this time, if they keep on growing like they have grown in the last 5 or 10 years they will do two things: (1) They will have the markets where they can control them. I think it is considered that in a corporation if a man has

30 per cent of the stock he can practically control it, and I think that applies almost equally to foods. And (2) you are going to have a situation where it will tear down the citizenry of our country.

The charm of our civilization is based on having a lot of people, independent merchants, who are interested in their respective communities and in everything that goes on in their communities. They are not only interested in the little store out of which they are trying to sell goods at a profit, but are interested in the churches and the general welfare of the people in the community. When you get to a corporation like the Atlantic & Pacific Tea Co., with 4,000 stores scattered through the East and in the principal Western States, and if you will take the United Retail Stores and put them on Wall Street, operating 1,000 stores, and another organization here that will operate 1,500 stores, you will create a situation that will not be for the best interests of our country, even if they do apparently save 1 per cent or 2 per cent or 3 per cent. And they do not even do that when you take everything into consideration. They do on their balance sheet, but that is not everything that must be considered.

The CHAIRMAN. Is there anything further, Mr. Kamper?

Mr. KAMPER. I think that is everything, Mr. Chairman. I certainly appreciate your courtesy in giving me this opportunity to be heard and being so patient with me.

The CHAIRMAN. We appreciate your coming, I am sure.

Mr. KAMPER. I do not know that I have added anything to your inquiry, but am glad to have come.

I wish to insert in the record here, for the information of the commission, a tabulation of the costs of operation of our business for the years 1914 to 1920, showing the percentages as related to the total cost. So far in 1921 we have made no profit. The table follows:

Period.	Net sales.	Cost of sales.	Gross profit.	Total expenses.	Net profit (+) or loss (−).
	Per cent.	*Per cent.*	*Per cent.*	*Per cent.*	*Per cent.*
July 1 to Dec. 31, 1914	100.00	68.71	31.29	32.44	−1.15
Jan. 1 to June 30, 1915	100.00	70.10	29.90	28.19	+1.71
July 1 to Dec. 31, 1915	100.00	67.89	32.11	26.89	+5.22
Jan. 1 to June 30, 1916	100.00	69.80	30.20	27.01	+3.19
July 1 to Dec. 31, 1916	100.00	69.7	30.3	26.1	+4.2
Jan. 1 to July 1, 1917	100.00	71.8	28.2	23.3	+4.9
July 1 to Dec. 31, 1917	100.00	76.9	23.1	25.4	−2.3
Jan. 1 to June 30, 1918[1]					
July 1 to Dec. 31, 1918	100.00	77.42	22.58	20.47	+2.09
Jan. 1 to June 30, 1919	100.00	78.90	21.10	23.23	−2.13
July 1 to Dec. 31, 1919	100.00	75.67	24.33	19.97	+4.36
Jan. 1 to June 30, 1920	100.00	72.42	27.58	22.64	+4.94
July 1 to Dec. 31, 1920	100.00	78.32	21.68	23.73	−2.05

[1] Out of file; we think with our auditors in regard to income-tax reports.

The CHAIRMAN. The commission will stand in recess until 2.30 o'clock p. m.

(Whereupon, at 1 o'clock and 30 minutes p. m., the commission recessed until 2.30 p. m.)

AFTER RECESS.

The commission met pursuant to the taking of recess at 2.30 o'clock p. m.

STATEMENT OF MR. R. C. MILLIKEN, MONETARY STATIST OF THE RURAL CREDIT COMMITTEE, THE NATIONAL SOCIETY OF RECORD ASSOCIATIONS, 318 EAST CAPITOL STREET, WASHINGTON, D. C.

Mr. MILLIKEN. Mr. Chairman, the organization that I represent is an organization of all the pure-bred live stock associations. The chairman of our committee is Mr. F. L. Houghton, secretary Holstein-Friesian Association, and the other members are Mr. Wayne Dinsmore, secretary Horse Association of America; Mr. F. W. Harding, general executive, Short-Horn Breeders' Association and secretary American Cotswold Association; Mr. Robert J. Evans, president American Swine Growers' Association and secretary Duroc-Jersey Association; and Mr. William H. Caldwell, secretary of the Guernsey Cattle Club.

The principles underlying rural credit, as it is now practiced in Europe and proposed in the McFadden-Kenyon rural credit and multiple insurance bill, may be summarized as follows: First, the application of all credit to production only. Second, unlimited liability of members of the communes for its credit obligations. Third, sound and cheap multiple insurance. Fourth, restricted area of operation. Fifth, banking with bills, as distinguished from deposit banking. Sixth, full power to do a banking business with a "bank parliament" composed of responsible farmers to legislate for themselves. Seventh, freedom from paternalism and all Government interference, and, eighth, gratuitous expense of managing communes.

The enactment into law of the McFadden-Kenyon rural credit and multiple insurance bill would not only be a boon to agricultural production, but would greatly strengthen our whole banking and credit systems. No European country relies on ordinary bank deposits for agricultural production as is the case with us. The time required for such credit to reproduce itself is too long to employ ordinary deposits, and where this bad banking method is practiced we find the banks loaded up with frozen assets which make it impossible for them to finance the production and distribution of commerce, the real mission of the deposit bank.

This bill purposes to create two Federal corporations by two separate special charters, namely, a rural credit society and a multiple insurance league. Multiple insurance means all kinds of insurance. The principle of multiple insurance is well tried in Europe, where some companies have operated it for more than two centuries.

The rural credit society will comprise one central bank, 48 branches—1 for each State—and any number of community associations, which are denominated communes in the bill. The capital of the central bank will be $25,000,000, which will be furnished by the Government, but a sinking fund is created for its retirement. The capital of the branches will aggregate $2,400,000, which will be furnished by the big life insurance company which accepts the Federal multiple insurance charter. This branch capital will become a guaranty against the loss of the Government's investment. The stock of the communes will have a par value of $5 and be paid for by farmer members. This commune stock will not only be another guaranty against the loss of the Government's investment, but will

also be liable for the debts of the communes of the several States in which they are situated.

A member's borrowing capacity will be proportioned to the amount of stock he owns in his commune. For example, a member of a commune of the second class may borrow ten times the amount of his commune stock. In communes of this class members are jointly and severally liable for the obligations of the commune. In other words, the members are partners. There is no such liability of members of communes of the third class, but in that class a member can borrow but five times the commune stock owned by him. The second or unlimited liability class communes have proven to be the most popular class in Europe. But in order to induce our farmers to adopt that class of commune we must provide a system of sound and economic multiple insurance for them, just as was provided for the European farmers, for with such insurance the poorest tenant in the community can furnish as good security as a basis for credit as the richest farmer.

Before the war the European farmer obtained credit for production at from 3½ to 4½ per cent, such low interest rates being due to two facts: First, the security furnished for such credit; and, second, because he had access to the credit markets of the financial and industrial centers for his rural bills of exchange, whereas the American farmer is dependent on the deposit bank of his community. The average membership of the German rural credit societies was 92, each jointly and severally liable for the obligations of the other. Therefore each piece of their paper had an average of 92 indorsers, exclusive of the multiple insurance and indorsers. It would be unreasonable to expect a wealthy American farmer to enter an unlimited liability commune with a tenant farmer unless we provide a system of sound and economic multiple insurance for the farm credit system.

Seven farmers may organize a commune, the members of which would elect officers yearly, the officers meeting bimonthly to pass on applications for loans to members. If the application for a loan be approved, the borrower draws a rural bill of exchange, which would be mailed to the State branch, and if approved by the branch a check would be sent to the borrower. This system of "banking with bills" is the oldest system of banking, antedating the deposit and note-issue systems by 20 centuries of which we have authentic history. Deposit banking is the most expensive credit system extant, it requiring expensive buildings and fixtures to display wealth, besides numerous officers, tellers, and clerks, whereas a rural bill of exchange drawn on a milking stool in a cow barn is just as good as if drawn on a mahogany desk in a marble bank building, as the investor in such paper looks to the system rather than to the individual maker. The total expense of managing the rural credit societies of Germany in 1912 was $152 per commune, compared to $44,700, the yearly expense of managing the average national bank in this country.

The CHAIRMAN. Do you think there is any comparison between your commune of seven people and a national bank?

Mr. MILLIKEN. The total turnover of these German societies in 1912 was over 15,000,000,000 marks, nearly $4,000,000,000. Now, the individual members of the commune may not have done quite as much business as the average national bank, and nothing like the business done by the large national banks, but that illustrates the gratuitous expense of management, which is one of the underlying

principles of the system of local associations. The only paid officer is the secretary, and she is the daughter of one of the farmer members or officers, somebody who can write a good hand and look after the affairs and carry on the correspondence.

It is also the purpose of the McFadden-Kenyon bill to induce one of the best mutual insurance companies in each particular line of insurance to accept the proposed Federal multiple insurance charter and do its particular line of insurance business thereunder instead of its State charter. The farmers in many States are paying 300 per cent more for fire insurance than the farmers in other States who have their local mutuals. A similar disparity in rates on cattle insurance exists, though to a lesser degree than exists in fire insurance rates. What is being done in one State can be done in all the States under similar conditions.

But conditions must be equal to hope for like results. Some States where the highest fire insurance rates prevail have the most obnoxious fire insurance laws, such as the "valued policy law," which enables a man to realize $1,000 on a building worth but $200. The true purpose of insurance is to indemnify the unfortunate against a loss and not to enable him to profit by the transaction. To permit one to profit by a fire encourages incendiarism. Such obnoxious laws would not interfere with this multiple insurance league, because it would obtain its charter from Congress and therefore would owe allegiance to but one Government, just like the Federal reserve and farm-loan systems.

In order to reduce the cost of this insurance we must reduce the expense of management. That is sought under the McFadden-Kenyon bill by making provision for common agents of the two corporations. The secretaries of the communes of the credit society can act as the local agents of the insurance league, and the auditors of the credit society can become the general agents of the insurance league. It has been said, and said truthfully, "That the average premiums under the plan would be less than $5, while many premiums would be less than $1, and if the credit society has to send 10, 20, or 30 miles for an insurance agent to take that application for insurance, the traveling expense of the agent would exceed the net cost of the insurance in many cases. Under the proposed arrangement the applicant and insurance agent would be together at the time the credit was granted, thus eliminating all traveling expenses."

By eliminating the expense of the soliciting and general agents we would reduce the cost of such insurance by 50 per cent in most cases. It will be the poor farmers who will be required by the credit society to carry insurance as a basis for credit, for the wealthy who have accumulated wealth to pledge for credit will not be required to furnish insurance. It therefore behooves us to reduce the cost of such insurance to a minimum. It is the purpose of this bill to conserve every sound, economic, and efficient insurance company in the country. By acting as the reinsurance agent for the sound "county mutuals" the proposed insurance league would greatly extend the usefulness of the latter.

Now, I have a letter from a professor of economics in one of our agricultural colleges—I will not name him—in which he sets forth that he could not obtain from his county mutual association sufficient

insurance to cover his mortgage on his farm, and he had to go and buy it from a stock company and pay 100 per cent more for the insurance than he would have had to pay to his county mutual association. Now, this league would take care of that. There is no compulsion in the bill upon the farmers of this credit society to patronize the league. Those farmers have their local fire insurance county mutuals. What would they do? They would naturally use those in cooperation to take the excess business.

Our farmers in many States have sound fire insurance through their "county mutuals," their risks being so widely scattered as to prevent a "conflagration loss," such as occasionally happens in the cities. The Baltimore and San Francisco fires wiped out all their local fire insurance companies, their unfortunate premium payers losing everything. The city man has no protection against a conflagration loss when he insures in a local fire insurance company, which limits its business to that one city.

In the matter of crop, or even frost, insurance, the farmer is in the same position as is the city dweller respecting fire insurance. Sound crop and frost insurance requires an area of operation much larger than any one State.

Therefore, if the farmers of one State procure a charter from their State to do a safe crop or frost insurance business they would be forced to leave their own State in order to furnish safe protection. But the moment they enter such other State their company becomes a foreign company, just as foreign as any British or German company doing business for profit is, and must comply with the same laws as are imposed on them, even though the proposed company enters such other State, not for profit, but to afford themselves and the farmers of such other States absolute security in the production of agriculture for the whole Nation. Congress can relieve this situation by granting the Federal charter of the McFadden-Kenyon bill for the multiple insurance league. Then it would be just as much at home in one State as in another, just like a national bank, which receives its charter from Congress, the only body authorized to legislate for a national bank. If Congress can grant charters to national banks solely to make money, it certainly can grant such a charter as that proposed in the McFadden-Kenyon bill to aid agricultural production.

I want to read here an article from the New York Times of last Sunday:

WEATHER INSURANCE TAKES STRONG HOLD—$1,500,000 WAS UNDERWRITTEN AGAINST RAIN ON JULY 4—EXPECT MORE LABOR DAY—FIVE BALL CLUBS INVEST—TEX RICKARD TOOK OUT $750,000 BRITISH POLICY COVERING DAY OF BIG FIGHT.

Weather insurance, a novelty a year ago, has now taken a firm hold in this country and, following the example of Great Britain, Americans are now insuring every variety of event against loss by rain. More than $1,500,000 was underwritten in rain insurance on July 4, it was estimated by a broker yesterday, and Labor Day is expected to break that record. Fortunately for the insurance companies, fair weather was general on the Fourth of July, and less than $100,000 was paid to policyholders.

Five major league baseball clubs this season have thus safeguarded themselves on all of their Saturday, Sunday, and holiday dates, while many minor league teams have protected themselves by Pluvius insurance, as that class of risk is termed. A British company underwrote a $750,000 rain insurance policy for Tex Rickard as a protection against financial setbacks which the elements might have caused on July 2, the day of the Dempsey-Carpentier fight. The premium of this policy was reported to have been $75,000.

The field for rain insurance has broadened. Colleges have begun to insure their football games, and State and county fairs also have taken up the practice. Underwriters report that horse-racing promoters and excursion-boat owners are among their best clients. In the winter they insure ice-skating rinks on the temperature remaining below freezing. Summer hotels insure themselves against bad weather over week ends, and department stores do the same thing on days when special bargains are advertised.

Rain insurance is said to be like playing a 5-to-1 shot. The insurance companies charge premiums ranging from 2½ to 25 per cent and even higher in rare instances. The usual method is to insure against one-tenth inch of rainfall during stipulated hours—usually 24, 12, 6, or 4 hours.

Pluvius insurance policies are flexible and can be written to cover special conditions or localities or in blanket form to cover a series of events. Every class of this form of insurance is now being written. There are policies under the terms of which if the income from any event does not equal the expense incurred the company pays the difference. Another form of agreement makes the company liable for the difference between a valued amount and the actual receipts. Snow, sleet, and hail are now included in the risks.

One line of weather insurance that is being developed is crop insurance. In this form of underwriting the companies will take either side. They will insure against fair weather when the crops need rain or they will insure against rain when crops have been cut and the coming of rain would be a calamity to the farmer.

Rates are based on the average rainfall in any location over a 10-year period and in the month in which the event insured is to take place. Reports of the United States Weather Bureau are taken as evidence of rainfall and policies are paid on such reports.

I have here a clipping from the Life Insurance Yearbook, 1918, published by the Spectator Co., New York, showing the names of some of the leading British multiple insurance companies and the different classes of business that they actually sell. This does not mean that that is what they are authorized to do, because they are authorized to do a multiple insurance business, just as this bill authorizes this insurance league to do a multiple insurance business. This statement from the yearbook shows the actual classes and lines of business of each of those British companies. [Reading:]

[Statement compiled from 1918 Life Insurance Yearbook showing different classes of insurance actually being done by a few of the old British insurance companies.]

NAME OF COMPANY, DATE OF ORGANIZATION, AND CLASSES OF INSURANCE ACTUALLY TRANSACTED.

Alliance, London, 1824: Life, fire marine, accident, burglary, fidelity and guaranty, and leasehold.

British Equitable, 1854: Life, fire, accident, burglary, and liability.

Commercial Union, 1861: Fire, life, marine, and accident.

Liverpool & London & Globe, 1836: Fire, life, accident, burglary, annuity, etc.

North British & Mercantile, 1809: Fire, life, annuity, burglary, etc.

Northern, London, 1836: Fire, life, accident, burglary, employers' liability, fidelity, plate glass.

Royal Exchange, 1720: Fire, life, marine, annuity, accident, employers' liability, executors, and trustees.

Royal, Liverpool, 1845: Life, fire, accident, plate glass.

Union, London, 1714: Fire, accident, fidelity, burglary, W. C., plate glass.

Yorkshire, York, 1824: Fire, life, accident, employers' liability, burglary, fidelity, live stock, plate glass.

The insurance league is to perform two functions, first, to furnish cheap and sound multiple insurance, and, second, to become an agency in the standardization of the farm credit paper. In the last-mentioned capacity the insurance league would perform a service for the credit society similar to that performed by the British "acceptance house" to their commercial credit system. Those acceptance houses are the outgrowth of the old merchant importing firms, which, in the

course of their importing business, were ferquently called on by merchants of second rate credit to accept their bills, thus enabling the latter by the payment of a small commission for a more exalted name than their own to obtain the lowest rate in the discount market for their paper.

Under the insurance league charter of the McFadden-Kenyon bill it is required to subscribe the capital for the branches of the rural credit society, elect the auditors for the latter, and become the custodian of one of the keys to the securities vaults of the credit society. I can not imagine anything which would do more to inspire the confidence of investors in that paper than for such a corporation to perform such service for it, because the wage earners of our financial and industrial centers have unbounded confidence in the financial stability of the big life insurance company, and they have demonstrated such confidence in life insurance by patronizing it as the wage earners of no other country have done. The average wage earners of our cities look on the farmer as a joke, and we know you can not do business with a man who does not treat you seriously. But it is otherwise with the big life insurance company, an institution they already patronize most liberally. Those British acceptance houses are nothing but credit insurance concerns.

This credit society will have a branch in each State. Take it now in the great financial and industrial centers; take Massachusetts, for illustration, a State which has $1,026,000,000 of savings bank deposits. The Boston branch would have an auditor, furnished by the Life Insurance League, and that auditor would not only have the inspection of the credit society, but would also hold one of the keys to the securities vaults.

Now, we go up to Brockton, Mass., and sell the superintendent of the Douglas shoe factory $500 of this paper. The chances are he is not going to have a safety deposit vault; the class of men that will buy this paper will not have safety deposit vaults. We have got to take care of it; this duty and trust is imposed on this insurance company to look after those securities. It has one of the keys. The superintendent of that factory would not have to carry that bill; he would leave it there and take a receipt for it.

Now, suppose he wishes to buy a home, and he wants the proceeds of this $500 bill to aid in building his home. He would go down to the credit society and get his bill, and the credit society would discount his bill and pay him at the market rate. That credit society is controlled by farmers. They would be selfishly interested in supporting the market for this paper.

I now beg to compare the McFadden-Kenyon bill with the Bank of France, which is a monument to the splendid statesmanship of Napoleon. Monsieur Pallain, governor of the Bank of France, made this statement to the Monetary Commission, which may be found on page 189, volume 1, of that series. He said:

> No charge has ever been made that the bank favored or aided any political party. There is never any claim that politics enters in any degree into the management of the bank. Except for the renewal of the charter in 1897, no legislation affecting the bank has been enacted since 1857. There is no sentiment for any change in banking methods nor for any new legislation.

Contrast that experience with the Federal reserve system, a system which has been in operation less than seven years. Already the

amendments far exceed the original act. In the Sixty-sixth Congress 66 bills and resolutions were introduced to amend it and it is head over heels in politics, as was witnessed in this room last week. If our legislators who created that system had followed the example set by Napoleon, you gentlemen of this commission would not have had to witness the shameful proceedings of last week.

When Napoleon created the Bank of France in 1800 his country had been cursed for more than two centuries by Bourbon bureaucracy, just as we are to-day cursed with it. Such a thing as a free credit institution was then unknown in France. Everything had to emanate from the King. That bank is the sole depositary of all Government funds, yet the Government does not even inspect it. It is absolutely free from paternalism of every sort. Its 15 directors and 3 censors are elected by its 200 largest merchant stockholders; more than 32,000 of its stockholders have no voice in its control. It is true that its governor is selected by the President of France, but the President must make such selection from three names furnished by the minister of finance, and the latter must select from people owning 100,000 francs of the bank's stock, an investment of more than $86,000. But those in control will not permit any but "great merchants" to acquire that amount of the bank's stock. Therefore it would make no difference whether the President of France, the King of England, or the President of the United States selected the head of that institution, he would serve the same interest—French commerce.

But Napoleon did not stop by placing the commercial men in control of that institution, but went further and gave them ample power and authority to do a banking business. He did not stop there, but created a "bank parliament" composed of responsible commercial men to legislate for it. He went still another step further and gave the institution a 20-year legislative respite, during which period the French Parliament could not legislate for it. The French Parliament has followed that wise policy by renewing the bank's charter every 20 years. Commercial men are selfishly interested in serving commerce, and if you give them freedom to do so they will do it far better than noncommercial men will do it. No man nor set of men could devise a code of laws as to the way in which a mother should nurture her babe; that is the law of her being.

I shall now apply the philosophic principles underlying the success of the Bank of France to the McFadden-Kenyon bill. I have with me the McFadden bill, which I ask to have incorporated in my remarks.

The CHAIRMAN. It is quite a long bill, but without objection it will be incorporated in the record.

(The bill referred to is printed in full at the end of the record for this day.)

Mr. MILLIKEN. Article II of the rural credit charter prescribes the corporate powers and Article VII prescribes the method as to how such powers shall be exercised by creating three "bank parliaments" for its farmer members to legislate for themselves, local, State, and national parliaments.

Article II, you will observe, grants to the corporation the power and authority "to do and transact a general banking and credit business," with but two limitations, namely, it is prohibited from issuing cur-

rency or bank notes and its communes are prohibited from receiving deposits. But there is not a single limitation on its power to "bank with bills," the oldest system of banking. It would be worth nothing to the farmer in agricultural production to assume demand payable obligations, and that is what deposit and note issue banking means. The two last mentioned systems not only would be worthless to the farmer, but they are too expensive.

I shall next discuss the three legislative bodies created by this bill. The local legislators are called supervisors, the State advisory councilmen, and the national directors. Article VII is divided into three sections, section 1 treating of the national officers and legislators, section 2 of the State, and section 3 of the local. Paragraph 4 of section 1 and paragraph 3 of section 2 provide that their legislators shall be members of unlimited liability communes. I tell you that farmers who are the guarantors of the credit of their respective communities are far safer and more conservative legislators then Members of Congress, who have no such responsibilities. This statement is too sound for argument, but I can cite numerous authorities to support it.

Representative SUMNERS. You mean now that those farmers make liable their entire possessions?

Mr. MILLIKEN. Absolutely.

Representative SUMNERS. For what are they so liable?

Mr. MILLIKEN. They are liable for every credit obligation that is assumed by the society.

The CHAIRMAN. You were speaking about the bills, and I did not get just what you meant. Are these bills accepted by the rural credits communes, approved by them, or what?

Mr. MILLIKEN. The society can only sell credit to members of the society. The member himself must organize a commune—at least seven members must organize one of these communes or community associations. They meet once a year to elect their officers. The officers meet bimonthly to pass on the applications of members. Each member is investigated at the time he becomes a member, and the branches—each State has a branch—would have records of all these statements. It is made a penal offense for them to make a false statement as a basis for credit. That is in the bill.

Suppose I want to buy a cow. I go to my local commune. Suppose I have not a dollar to pay for that cow; I have nothing but that cow to secure that payment. I am asking the community to guarantee my credit. They could take a mortgage on the cow. I could not transfer title to the cow in most of the States. I could not move the cow out of the community, but even if I did I could not sell the cow.

Now, I would be required to carry insurance on that cow. Under the present plan the stock insurance companies charge 8 per cent on the insurance. I had this up with the finance committee of the executive committee of the American Farm Bureau. Here was Mr. O. E. Bradfute, of Ohio, who was paying 8 per cent for cattle insurance. I told him that if he would eliminate the expense of the local and general agents he could easily reduce the cost of that insurance 50 per cent and make it only 4 per cent.

Then Mr. E. H. Cunningham of Iowa, who was asked by President J. R. Howard to sit with the finance committee to listen to this discussion, spoke up and said, "Gentlemen, I am only paying 2½

per cent for my cattle insurance." I said, "Well, you establish the proof for this system. You need not go any further." And we showed there that in many States they were paying 300 per cent more for fire insurance than in others. I can name a number of States. Mr. Sumners—Texas farmers are paying 300 per cent more for fire insurance, and the same is true in Arkansas—than farmers in other States are paying to their "county mutuals."

Representative SUMNERS. I am concerned about one point in your proposition, and that is the matter of unlimited financial responsibility of the members of the commune. Do you believe that the people would assume that liability?

Mr. MILLIKEN. Yes; if you will furnish them with cheap and sound multiple insurance. There is a limited liability, but he has to pay for it. The farmer who is unwilling or who is unable to find six other farmers in his community whose credit he is willing to guarantee, or who are willing to guarantee him, should not ask the same terms as the man who is doing that. Therefore he goes into an association of limited liability, but he can only borrow five times the amount of his own capital.

And what is the result? Instead of trying to force the farmers to do it, let us have both systems. The farmer is a most conservative man; he is going to be slow. The original society that was organized in France was nearly all limited liability, whereas the new societies are nearly all unlimited liability. The first was limited liability, where they could only borrow five to one, but they found out they were paying for their lack of trust. Now we have this protection, that only members of those unlimited liability associations can sit on the boards of directors of the states and the national parliament that we establish.

Representative TEN EYCK. Do you exclude the farmer who is not a member of the association?

Mr. MILLIKEN. Oh, certainly; only members can borrow.

Representative TEN EYCK. How about the poor man that has not enough money to purchase an interest in the association?

Mr. MILLIKEN. Well, as a basis for it, he must go and save some. He can borrow ten times the amount of his stock. If he has $50 worth of stock he can borrow $500. If he has $100 worth of stock he can borrow $1,000. He must lay aside for his credit just like he must patch his roof in dry weather in order to protect himself against rain.

Representative TEN EYCK. By insurance you are protected against the death of the animal or against fire?

Mr. MILLIKEN. Yes, sir; crop insurance, all kinds of insurance.

Representative TEN EYCK. Now, take this man who is not responsible for more than $50. Suppose he should kill the cow for meat and eat it up. How would the other men be protected in that instance?

Mr. MILLIKEN. They are right in that community. If you will recall, I said that one of the general principles was the restricted area of operation. It would not do to have one farmer living over here 10 miles south of town and another 10 miles north of town. Those farmers seldom meet, and they can not supervise it. But I will bring that up a little later and give you the very highest authority—Wollemborg, the founder of the Italian rural credit system.

Representative SUMNERS. And nobody could get into this association anyway unless the other members would accept him?

Mr. MILLIKEN. There must be unanimous consent; it is a partnership.

The CHAIRMAN. Where is the market for these bills?

Mr. MILLIKEN. The market for these bills will be the insurance companies and the wage earners of our industrial centers.

Now, the farmer should have that money at not exceeding 1 per cent in excess of what the savings banks are paying for deposits. He ought to get it for that. We know that before the war savings banks in the financial centers of America were paying 2½ per cent, and the highest rate was 3 per cent.

The CHAIRMAN. The only security then that would be behind these bills would be the capital stock of the commune and the individual responsibility of the stockholders?

Mr. MILLIKEN. Let me take that cow—

The CHAIRMAN. Am I right about that?

Mr. MILLIKEN. No, not exactly. I will show you now; I will enumerate the responsibilities on that very thing. Suppose I live here in Maryland—I am illustrating now by the case of this cow. Assume that I have nothing. I am a member of an unlimited liability association. I would be primarily liable for the payment for that cow, and inasmuch as I have no endorser I would give insurance on that cow; I would give a mortgage on that cow.

Now, my six partners—assuming there are only seven, the minimum number that is permitted—would all be liable for that cow. The stock of all the communes of Maryland would also be liable for the payment of that obligation. The surplus of the branch of Maryland would be liable next. Then the stock of the branch of Maryland, which would be put up by the life insurance company, would be liable for it. Then if that did not pay it, the $25,000,000 furnished by the Government would be liable for that obligation.

The CHAIRMAN. How do you get at that $25,000,000?

Mr. MILLIKEN. That is furnished by the Government.

The CHAIRMAN. How does that become liable?

Mr. MILLIKEN. It is made so in the bill, in stating the order of liability.

Representative TEN EYCK. I have no doubt there is enough liability behind it to pay for the cow. The only difficulty is to protect the members of the association from the loss of the price of the cow provided the man who borrowed on it did not live up to his obligation.

Mr. MILLIKEN. They are right there, and they take a mortgage on that cow. They could take the cow away from him if he were to abuse it.

Representative TEN EYCK. But if he killed the cow and ate it they could not take it away from him?

Mr. MILLIKEN. They could send him to the penitentiary, in the first place. But the farmers are in that community, and he could no more kill that cow and get away with it in that community than he could fly. They would know all about it.

Representative SUMNERS. Well, now, under your bill would the Maryland association, or any district association less than the Maryland association, be privileged to reject any individual group which tendered itself for membership in the confederated whole?

Mr. MILLIKEN. Each State has a branch, which is appointed by the rural credits society, and also has an auditor furnished by the Insurance League. Now, that manager has, of course, the right to reject any and all paper——

Representative SUMNERS (interposing). I am not talking about paper.

Mr. MILLIKEN. Well, that is it; the only obligation would be the paper that would be presented, and that paper would have to go to Baltimore for approval. Those societies would meet every two weeks. We will say they met last Saturday. Now, on Monday morning the manager of the Baltimore branch would be in possession of all the applications for credit throughout the State of Maryland. He would simply wire to New York, the central bank, "We need $100,000 to meet our credit requirements." The central bank would know what rate of discount to charge, and the state of the money market. They would wire back to the Baltimore manager what time to draw. There might be applications there from the insurance companies or of the investors for this paper. They may be five-day bills. So the Baltimore branch manager would draw a $100,000 draft or bill on the central bank at, 5, 10, 15, or 20 days' sight, through one of the commercial banks of Baltimore, to furnish a checking account, and $100 would be sent to me to pay for this cow, or sent to the man who sold me the cow.

Representative SUMNERS. How long a time would you have to pay this money back?

Mr. MILLIKEN. Well, suppose that was a dairy cow. If that was a dairy cow she would reproduce herself in monthly periods; we will say in 20 months. So I would give 20 $5 bills of exchange.

Now, those bills of exchange, with the insurance provision, the mortgage, and all, would go to the Balitmore branch and be kept in Baltimore. The Baltimore branch might not send those little $5 bills out, but it has authority to draw other bills on the central bank, which would be placed on the open market. Those bills would mature one every month, a $5 bill every month. The credit society would have full power and authority to negotiate and contract with the other banks and financial institutions to handle its paper.

Representative TEN EYCK. Suppose we went through a period when the farmers were making money, and they stopped borrowing and paid up their debts. What would become of that money? Would that go into the central association and remain there, or does it automatically retract in the paying off of the debts?

Mr. MILLIKEN. It would retract, yes; certainly.

I beg to quote from the able address to the commission we sent abroad eight years ago by the Hon. Leon Wollemborg, ex-minister of the treasury of Italy and founder of the Italian rural credit system, the highest living authority on European rural credit. You will find his address on page 26, of Senate Document No. 214, Sixty-third Congress, first session. He said:

There is yet another psychological factor which goes to insure the safety of these banks, and that is public opinion. It is a well-known fact that public opinion is nearly always inclined to side with the weak as against the strong, and as, rightly or wrongly, the debtor is generally considered the weaker party, he usually has public opinion on his side. But in the case of the rural bank the situation is reversed. The heads of the families in the village constitute the membership of the rural bank, and, as they are all

interested in seeing that the loans for which they are severally and collectively responsible are paid, public opinion in this case is on the side of the creditor and not of the debtor.

On another page of the same document he pointed out the superiority of self-inspection over Government inspection, which is the curse of this country. On that subject he said:

But, when the loans are strictly limited to people residing in the same locality, all can become vigilant and act as inspectors for their own protection. And you will find that inspection thus exercised by the members of the rural banks is far superior to any Government inspection, since each man has been rendered personally liable and is acting as inspector in his own interest. As one of the farmers once said to me, "We are 100, all acting as spies on the others to see that nobody does anything wrong."

The rural credit socities of even paternalistic Germany are all self-inspected. On this point let me quote the question and answer on page 298 of the same document:

Q. Are the Raiffeisen banks subject to Government supervision?—A. No; this is their special feature and characteristic.

When Napoleon created the Bank of France he had nothing but the history of the credit institutions of England to guide him, a country which has always had the freest credit institutions in the world. We inherited that policy of trust from her, as was evidenced by our early legislative policy in creating corporations. In proof of this I refer you to the charter of the Potomac Fire Insurance Co., created March 2, 1831, and signed by President Jackson, which you will find in volume 6 of the private acts of Congress. Section 8 of that charter grants that corporation ample power and authority to do a fire insurance business, with but one limitation, namely, that no policy should exceed $10,000. But that limitation amounted to nothing, because the company, to scatter its risks, limited its policies on single risks or single blocks to $5,000.

The same section creates a "bank parliament" for the corporation, to be composed of responsible stockholders. But section 7 made czarism or one-man control impossible. The corporation had 8,000 shares of stock, and if 50 men had owned 60 shares each, they would have had 1,000 votes for the directors or "bank parliament"; whereas if one man had acquired the other 5,000 shares, he would have had but 267 votes. Congress gave that corporation a 20-year legislative respite. It operated 69 years without any sort of Government inspection, and during that period paid its stockholders far greater dividends than it has since paid under the system of Government regulation and inspection provided by Congress. But Congress has so amended that charter that one man now controls that corporation, thus thwarting the original purpose of the corporation of a stockholders' control through their own "bank parliament."

If Congress should enact the McFadden-Kenyon bill into law, and thus demonstrate its confidence in the responsible farmer members of the corporation, it would obviate the necessity of maintaining an expensive lobby here in Washington. The present lobby expense is an enormous one for the farmers. Why, one farmers' organization pays its lobbyist a $12,000 yearly salary in addition to all his expenses. That is $5,000 in excess of all the money I have received from every source during the more than 11 years I have spent here trying to induce Congress to enact this legislation, except the money I have made writing life insurance, writing for the press, giving expert

advice, and the compensation paid by the government for the eight months' service I rendered during the war.

Congress may refuse to enact the philosophical principles of this bill into law and continue its present legislative policy of distrust, and thereby increase the bureaucracy of this city and extend the power of the lobby. If it does continue this unwise policy, then in time the Frankenstein of its creation will destroy Congress by causing the people to distrust you. Then we shall have a reign of terror in Washington as France experienced. That will result in a military dictatorship, but I fear the dictator will be a Lenin or Trotski rather than a Napoleon, and leave us nothing but ruin and disaster.

Representative SUMNERS. And do you think that if we enact this bill we will avoid all that?

Mr. MILLIKEN. We will do exactly what France did. That was the beginning of the destruction of bureaucracy in France. It was 63 years before the French Parliament applied this to all the credit institutions of France. You will find that statement by Dr. Andre Liesse in his "A Century's Evolution of French Credit."

Representative SUMNERS. Mr. Milliken, have you considered in studying this matter—and I know you have studied it for a long time—that there is possibly some fundamental difference between the relationship which obtains among the people of the United States and that which obtains among the people of France and Germany, for instance, which might affect the workability of the scheme?

Mr. MILLIKEN. Well, I have spent my whole life in the practice and study of credit institutions. In my teens I was a bookkeeper in a general store in a rich farming community.

Representative SUMNERS. Well, I want to talk about that one thing now. Of course, you know that in Germany, for instance, the farmers live in villages. Most of them have lived there all their lives——

Mr. MILLIKEN. Yes; the average membership of a commune in Germany is 92. We will never have so large an average membership; the average membership will not be that large.

Representative SUMNERS. What I am trying to get at is the difference in the relationship which obtains among the people that make up the German rural community and the people that make up the rural community in Texas, for instance. As I started to say, in Germany they live in villages. They have gone to school together. They are kin folks. Their father and grandfathers probably lived there. Their land is in little strips of from 50 to 300 or 400 feet in width and running back 300 or 400 feet. If a man has 50 acres of land he may have 50 abutting property owner neighbors. They cooperate in the cultivation of their crops and the harvesting of their crops. Their whole life is one of close contact and cooperation. Then, too, there are class distinction which drive these agricultural classes back upon themselves into class cohesion. I understand that if a man leaves the place where he is living in Germany, he has to get the permission of the chief of police, and he must report to the chief of police in the place to which he goes. Those condition do not obtain in Texas, most of them have not lived where they are very long, and with a lot of them the chances are they are going somewhere else pretty soon.

Mr. MILLIKEN. Let me give you my experience. In my teens I kept books at Pleasant Point, which is 7 miles from Alvarado, Tex.,

right there in that rich black land. The land was owned in large bodies. Seventy-five per cent of our customers were tenants. We sold a standard cultivator, that cost us $25, for $37.50—50 per cent profit—and we would obtain a lien on those cultivators, and take the notes at 10 per cent interest. If those tenants had had this system of credit they would have had far better credit than the firm that I represented, because they could issue a security that would draw the gold from any bank in the country. Why, the credit society could give a better security than any merchant in the country, and the cultivator people would sell to them a carload of those cultivators, and not only would they save that 50 per cent profit that we made but they would be getting their money at one-half the interest rate we charged them.

Representative SUMNERS. The point I am directing your attention to, which seems to me to be rather important, is the difficulty of undertaking to apply to America a system which may have proven effective in Europe. There is a difference in the element of community solidarity in this country as compared with that of Europe.

Mr. MILLIKEN. And therefore you have got to let a man select his own partners. We in this room, say, are in a community. Mr. Ten Eyck says, "Oh, I don't want Mr. Milliken. I will take this gentleman, and that gentleman, and that gentleman"—he will pick his six partners. And it must be by unanimous consent. Now, in one little village there may be half a dozen different local associations or communes. Those men go and select their partners, and when they find out that the failure to trust the other men of their community requires them to pay two times the amount that is paid by the man who does trust them you will get them in the system.

Representative SUMNERS. As I understand your position, your system as applied would help to build up a solidarity among the people?

Mr. MILLIKEN. That is just what it would do. The farmer, as I remarked in the beginning, is the most conservative man in the country. It is going to be slow. But let me answer your question from another standpoint, the standpoint of monetary security. We will never have any monetary security in this country until we provide the farmers with a system of agricultural credit that is commensurate with the needs and hazards of the industry.

Representative SUMNERS. I do not think we will get into disagreement about that.

Mr. MILLIKEN. Absolutely; it just comes right down to that, and it behooves every man in the country, in the interest of monetary security, to encourage farmers, and Congress has merely to furnish the machinery.

Representative TEN EYCK. Well, in this instance where would the farmer deposit his cash?

Mr. MILLIKEN. They would not receive deposits. The farmer's interest would be in the stock of his commune. Under the German system they began as purely local deposit banks, but they made no progress until they got in the open market with their bills, and it was 14 years before the Government furnished the capital for the central bank that put them in the open market. The Prussian Government furnished $19,000,000 and the Imperial Government of Germany—I do not know exactly what amount.

Representative TEN EYCK. Do you not think that our farmers, with the education they have had in the past, would rather resent the fact that the money they deposited in the other banks—if this is not a depository bank—would be borrowed by the other industries of the country, and they would be forced to borrow out of a special fund?

Mr. MILLIKEN. As the Comptroller of the Currency said 10 days ago in his address at Philadelphia, the worst overdone business in this country is deposit banking. Instead of depositing, let the farmer buy these bills. He buys these bills of exchange; that is what we want him to do.

Representative TEN EYCK. You do not think he would feel at all that he was undergoing any hardship or being discriminated against on account of the money that he deposited in the other bank being used and borrowed by other industries and he not being permitted to borrow back his own money?

Mr. MILLIKEN. No; because we are giving him his own institution, and we are giving him a different piece of paper, a sounder piece of paper. Let him put in his idle money. It will go to the branch—in every State there will be a branch. That is far safer for him, and it will not overdo deposit banking.

Representative TEN EYCK. In this way you are not adding to the present banking accommodation for the other industries of the country but you are giving the farmer another avenue for borrowing?

Mr. MILLIKEN. That is correct. Now, let me call your attention to this fact. France not only limits the amount that a wage earner can deposit in any one or any number of savings banks to 1,500 francs—$300—a year, but she also makes it impossible for the men who control those savings banks to invest one dollar of those deposits. That must go to the central bank of savings banks. France wants these savings banks in order to enable the wage earner to accumulate a corporate unit, then she encourages them to become investors. In consequence of this law and this policy France has built up a system with the greatest number of investors in the world, while we have the greatest number of speculators.

Representative TEN EYCK. I understand the French peasant is fairly well off for a poor man on the farm, but on the other hand are not the German peasants or the German farmers in a different condition?

Mr. MILLIKEN. Germany, like the United States, has overdone deposit banking, and look at German credit now. Just look at it.

Now, I wish to make this remark right here; I did not finish that statement. After the organization of a central bank that gave to the German rural credits system an open market for their bills, and the progress of the Raiffeisen system—those were the beginnings of the central bank and the entering of the open market. The last account (1912) I have of the banks of Bavaria showed that 89.2 per cent of their total borrowed capital was raised on rural bills of exchange in the open market and 10.8 per cent from depositors.

Now, those German farmers, the members of these rural banks, had no safety deposit vaults, they had no safes, and they carried this money around in wallets. That would never do in this country, with the poor rural police protection. The deposit banking system is an expensive system, in addition to the other dangers underlying it.

There is the danger of embezzlement, robberies, and things like that. These farmers would be dealing with negotiable instruments, and there would not be that incentive to murder and rob them.

They would use the check paying banks; they would cooperate with the check paying banks. It is going to take time, just as it did in Germany. The first 35 years of the German system did not accomplish as much as the last 5 years before the war—I am not speaking of it since the war. It is going to take time; any sound system is bound to be of slow growth.

Representative TEN EYCK. Do you think the establishment of this entire system would be cheaper than the extending of the laws regarding the present national banks to take care of farming needs?

Mr. MILLIKEN. I do.

Representative TEN EYCK. Because of the additional expense put upon them?

Mr. MILLIKEN. I think you have got to reduce the expenses.

Representative TEN EYCK. If we expand the national banks so as to add a great additional service, is that going to cost as much as to establish an entirely new banking system?

Mr. MILLIKEN. The bank that receives a volume of deposits payable on demand—for it to assume these long-time obligations would weaken that bank. That is the trouble with it. In that connection I wish to read a statement by a member of this commission, the honorable Ogden L. Mills, in the Congressional Record of day before yesterday:

> Let me call the attention of gentlemen from the rural districts to this further proposition. Inside of three months this House will be considering a proposition to provide farmers with credit running from a year to two and three years, because there exists to-day a well-recognized gap in our banking system. The ordinary sources of credit, the short-time commercial credits, do not meat the situation, because these mature ordinarily in from 60 to 90 days, while the farmer needs from 9 to 72 months and the cattle raiser up to three years' credit. It is not proposed by gentlemen who have studied this proposition, and who will advocate the measure, to tap the commercial credit fund of the country. No; they propose to tap the investment fund, and very properly so. I would point out to them that it is going to be mighty difficult to tap the investment fund of this country if you drive that investment fund into tax-exempt securities, or if you propose to tax it to the tune of 70 per cent to pay Government expenditures.

The present situation is largely due to the fact that we have not a system of agricultural credit that is commensurate with the needs and hazards of agriculture.

Representative TEN EYCK. There is no doubt about that. What we want to get is the cheapest one that will render the greatest good to the greatest number.

The CHAIRMAN. In this bill there is nothing that limits the operation of these banks to agriculture?

Mr. MILLIKEN. Yes, sir; to agriculture strictly.

The CHAIRMAN. It does not say so.

Mr. MILLIKEN. It says there that the members can only be people engaged in farming. There is no restriction on their doing a banking business; it is on the men that can join. It can be agriculture, horticulture, or live stock.

Representative TEN EYCK. Do you feel that Mr. Mills' remarks in the House are along the line that you are suggesting here?

Mr. MILLIKEN. Oh, every word of it. I indorse every word.

Representative TEN EYCK. Well, does he indorse yours?

Mr. MILLIKEN. I do not know Mr. Mills. My attention was called to this record by a gentleman who read it. I have never seen Mr. Mills, except day before yesterday when I was in this committee room.

Representative TEN EYCK. Do you understand that the short-term loan or the intermediate loan to the farmer for nine months should be from an investment fund?

Mr. MILLIKEN. More of an investment fund. It should not receive deposits.

Representative TEN EYCK. This is what I mean. That should come from an investment fund rather than from the commercial fund that other industries borrow from on their short-term notes?

Mr. MILLIKEN. Yes, sir; that is it. None of the farmers' productive activities will reproduce themselves inside of six, eight, and nine months——

Representative TEN EYCK. And a year.

Mr. MILLIKEN. And three years.

Representative TEN EYCK. Well, I do not know about that. Take cattle raising, for instance. I explained the other day about the cattle raiser who borrows on the calf. When the calf gets to be nine months or a year old he will reborrow on that calf, he will pay off his first note and borrow more money, because the calf is worth more. When the calf is two years old he will pay off the second note and borrow more, because the calf is worth still more. Therefore it is not really a short-time loan.

The CHAIRMAN. That is not the case if a man buys a bunch of steers down in Texas and takes them to Montana and fattens them three years.

Representative TEN EYCK. They do not fatten them for three years if they know their business.

The CHAIRMAN. Well, a year, or year and a half, or twenty months.

Representative TEN EYCK. Six months of corn feeding will put all the fat on them that you want.

The CHAIRMAN. I am talking about range-fed cattle, not corn-fed cattle.

Representative TEN EYCK. Well, that is growing, not fattening.

Mr. MILLIKEN. Let me take a few activities with which the Chairman is familiar. For instance, fattening cattle. There is in operation—about the only agricultural operation that will reproduce itself in three or four months is fattening cattle right on corn.

Representative TEN EYCK. That can be taken care of by nine months' credit.

Mr. MILLIKEN. A good deal of that must be taken care of by the commercial banks, but when it comes to raising those cattle that is something the commercial banks can not touch.

Representative TEN EYCK. I want to give all consideration to this bill that you suggest, and I want to bring out these points so that I can more intelligently and thoroughly digest the purport of the bill when I study it from the standpoint of its consideration in the House.

The CHAIRMAN. Is there anything further, Mr. Milliken?

Mr. MILLIKEN. I can not think of anything further, Mr. Chairman.

The CHAIRMAN. I do not know about the other members of the commission, but I have not had an opportunity to examine this bill very carefully.

Mr. MILLIKEN. I have been before the Banking and Currency Committee of the House for four days, and I have gone into it more thoroughly there, of course, than I have here. I wanted to make a short statement here.

The CHAIRMAN. I have here a statement submitted by Mr. W. J. Spillman, associate editor of the Farm Journal, that I would like to have inserted in the record.

(The statement submitted by the chairman is here printed in full, as follows:)

RURAL CREDIT.

[By W. J. Spillman, associate editor the Farm Journal.]

Farmers have need for, and actually utilize in so far as they are available, three distinct kinds of credit. The first of these may be called land credit. Its primary purpose is to enable the farmer to make permanent improvements on the land and to enable the landless man to acquire land ownership. This is the type of credit supplied by the Federal farm land banks and the joint-stock land banks. These institutions supply this credit in the best possible form—on long-time amortization payments. The only difficulty is that under present conditions the land banks are not able to secure the necessary capital to meet the demand for this type of loans. The Fletcher bill, now pending in the Senate, permits these banks to hypothecate their bonds with the Treasury Department as the basis for the issue of Treasury notes, thus extending to the land banks the privilege already enjoyed by the Federal reserve banks, of issuing circulating medium.

This privilege would give the banks all the capital needed to meet the needs of farmers for long time amortization credit. If the Commission on Agricultural Inquiry will point out the need for this legislation, and will urge the passage of the Fletcher bill, or some similar measure, it would aid in securing this much needed legislation. At the present time the land banks are not able to meet more than one tenth of the demands made on them.

The second type of credit used by farmers is what may be called marketing credit. In order that farmers may receive a fair price for their products it is essential, in the case of nonperishable products, that they be supplied to the markets as the demand for them arizes. This means marketing such products in an orderly manner. To do this it is necessary to hold a considerable portion of such products for some months. But this is often only possible when the producer can get means with which to pay the cost of production. Credit of this kind needs to be extended over periods varying from a month or two to twelve months. It appears that the larger cooperative marketing organizations already existing, or now in the process of formation, are in a fair way to solve the problem of marketing credit without the need of further legislation except permission to do cooperative marketing.

The third type of credit needed by farmers may be called productive credit. It is the kind needed for buying fertilizers and other supplies necessary to the production of crops; for buying livestock for productive purposes; and the like. In this case what is needed is some kind of personal credit for farmers. The ordinary deposit banks are not in position to supply this credit, mainly for the reason that the length of time for which loans are needed in such that it would not be safe for deposit banks to extend such credit.

This third type of credit is probably used by farmers to a greater extent than either of the other two types, or would be if it were readily available. Tenant farmers particularly must either borrow money with which to buy the supplies required for crop production or obtain these supplies on credit, usually at prices considerably higher than cash prices, with a high rate of interest in addition. Thousands of farmers buy farm machinery every year on credit, practically always at a price considerably above the cash price, and pay interest on a chattel mortgage besides.

I am of opinion that ample personal credit of the kind here under consideration would do more to stimulate farm production than any other one thing. It would also save farmers an enormous sum of money every year. The only bill now before Congress which is intended to supply credit of this type is that known as the McFadden-Kenyon bill. This bill has been very carefully drawn, and would create a purely

cooperative credit society that would make every idle dollar in the country available for productive purposes to any farmer needing it and who is really entitled to credit. This bill would do much to obviate the evils of the tenant system. I hope this commission will see its way clear to give this bill a strong and unequivocal indorsement.

(The so-called McFadden-Kenyon bill submitted by Mr. Milliken and ordered by the commission to be incorporated in the record is here printed in full, as follows:)

[H. R. 7879, Sixty-seventh Congress, first session.]

A BILL To standardize paper for agricultural production, to establish discount markets for such paper, to create two necessary fiscal and financial agents for the Government of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the rural credit and multiple insurance act, and the two corporations created by this bill shall be referred to, respectively, as follows: The Rural Credit Society shall be referred to as the society and the Liberty Insurance League shall be referred to as the league.

SEC. 2. That the commissioners, directors, and trustees, respectively, of said two corporations and bodies politic and financial and fiscal agents hereby created shall by the name of the Rural Credit Society and Liberty Insurance League, have succession and be able to sue and be sued, implead and be impleaded, in all the courts of the United States, and each to make and use a common seal, and the same to alter and amend at pleasure.

SEC. 3. That L. D. May, of Granville Center, Bradford County, Pennsylvania; Witt Sears, of Thorp Spring, Hood County, Texas; and , of , are hereby designated and created commissioners, with power and authority to negotiate, in the manner expressly provided in Article VI of the charter creating said Liberty Insurance League, with any solvent and well-established life insurance company incorporated under the laws of some one of the several States having approved assets of not less than $400,000,000 for the purpose of inducing one of such companies to accept the terms of the charter creating said Liberty Insurance League, and agree and bind itself to operate thereunder and be governed solely by the terms and provisions thereof; and said commissioners are further authorized and empowered to organize said Rural Credit Society in the manner expressly provided in Article VIII of the charter creating said Rural Credit Society.

SEC. 4. That one of said financial and fiscal agents, to wit, the said Rural Credit Society, shall operate and be governed solely by the terms of its charter, which shall read as follows:

CHARTER OF THE RURAL CREDIT SOCIETY.

ARTICLE I.

SECTION 1. NAME OF CORPORATION.—The name of the corporation shall be the Rural Credit Society, which is referred to herein as the society.

ARTICLE II.

SECTION 1. NATURE OF BUSINESS.—The nature of the society's business shall be, and it is hereby authorized and empowered, to do and transact a general banking and credit business through its executive, branch, and commune offices, and through such agents, agencies, and auxiliaries as its by-laws may prescribe, to buy and sell, and contract for the purchase and sale of securities, of moneys of the United States, and of gold bullion, to buy and own in perpetuity such real estate as may be deemed necessary for its executive and branch offices and the same to dispose of at its pleasure, to own and hold for a period not to exceed ten years such real estate as it may acquire through foreclosure proceedings and the same to dispose of in like manner, to act as the fiscal and financial agent for the Government of the United States within the powers conferred upon it in this article and on such terms as may be prescribed by the Secretary of Agriculture and approved by the society's board of directors: *Provided*, That neither the society, its branches, communes, agents, agencies, nor auxiliaries shall issue demand payable printed bank notes, commonly denominated currency: *Provided further*, That the society's communes shall not receive deposits.

ARTICLE III.

SECTION 1. PLACE OF EXECUTIVE OFFICE.—The temporary executive office of the society shall be located by its board of directors at their first meeting, at which place it shall remain for a period of five years, when the board shall establish a permanent executive office by a majority vote: *Provided*, That the board may, by a two-thirds vote, change the location of such office thereafter. Board meetings may be held at such places in the United States as its by-laws may prescribe.

ARTICLE IV.

SECTION 1. CAPITAL.—The capital of the society shall consist of a guaranty fund and the stock of its branches and communes.

PARAGRAPH 1. GUARANTY FUND.—The guaranty fund shall consist of $25,000,000, which shall be furnished and paid in by the Government of the United States.

SUBPARAGRAPH 1. WHEN GOVERNMENT SHALL PAY IN GUARANTY FUND.—When the commissioners have induced such a life insurance company as is described in section 3 of the act creating this charter to accept the said Liberty Insurance League charter, and the Secretary of Commerce has approved their acts and issued a statement authorizing said league to begin business under such charter, the Secretary of Commerce shall then draw a voucher on the Treasurer of the United States for $25,000,000, who shall cause such sum to be paid into the treasury of such league, to be held in trust and invested by such league for the use and benefit of the society until the Secretary of Agriculture orders the league to pay the same, principal and interest, into the treasury of the society, less the compensation allowed for the risk and expense for accepting such trust, as is provided in Article X of said Liberty Insurance League charter.

SUBPAR 2. SINKING FUND TO RETIRE GUARANTY FUND.—Within three months after the 1st day of January, each year, the society shall cause to be paid into the Treasury of the United States one-tenth of 1 per centum per annum on all loans and discounts made or renewed to its members the preceding year, ending December 31, which payments shall be invested under the direction of the Secretary of the Treasury, for the use and benefit of the sinking fund of said society to retire the guaranty fund and interest thereon; and when the sinking fund, principal and interest, equals the principal paid by the Government, together with simple interest at the rate which the Government has to pay for the money so advanced by it, then this subparagraph shall be of no effect and the society's obligation to the Government on account of the guaranty fund shall be canceled.

SUBPAR. 3. BRANCH STOCK.—Each of the forty-eight branches shall have a capital stock of $50,000; and the stock of each branch shall be fully paid in cash before such branch begins business. Such capital shall be paid by the Liberty Insurance League, and the society shall cause stock certificates to be executed and delivered to the league as evidence of such payment and its ownership of such stock. Such stock shall be nonassessable and nontransferable and paid an annual dividend by the society, if earned, of 6 per centum, which dividend shall be cumulative.

SUBPAR. 4. COMMUNE STOCK.—The stock of the communes shall be subscribed and paid for in cash by the members of the respective communes. Such stock shall be of the par value of $5 each, for which certificates shall be executed and delivered to the subscribing members by the managers of the respective branches. Such stock shall be nontransferable while the subscribing owner is a member of the society: *Provided*, That a member may reduce the amount of his commune stock by complying with the terms of the by-laws and subparagraph 4 of Article V of this charter. The commune stock shall be nonassessable and paid such annual dividend, if earned, as the advisory council of the respective director's district may declare: *Provided further*, That no dividend shall be paid on the commune stock of a director's district until such branch has accumulated a safe surplus in the judgment of the board of directors.

ARTICLE V.

SECTION 1. COMMUNE.—The word "commune" as used in this charter shall denote a voluntary local association of farmers for the purpose of improving their productive credit facilities, and the persons comprising the commune shall be referred to as members.

PARAGRAPH 1. CLASSIFICATION OF MEMBERS.—There shall be two classes of members, voting and nonvoting members. The privilege of voting the election of those to control the corporation shall be exercised by the voting members only.

SUBPAR. 1. HOW TO BECOME A VOTING MEMBER.—To become a voting member, a nonvoting member shall obtain the unanimous vote of the voting members of his commune.

SUBPAR. 2. MINIMUM NUMBER OF VOTING MEMBERS.—Each commune must have at least seven voting members.

SUBPAR. 3. EXPULSION OF A MEMBER.—The voting members of any commune may by a majority vote expel a member.

SUBPAR. 4. VOLUNTARY RESIGNATION OF MEMBERS.—Any member may vountarily withdraw his membership from his commune at will, to take effect immediately; but a member of a commune of the first and second class shall be personally liable for the payments of the debts contracted by the commune while he is a member thereof and until the 1st day of January next after he ceases to be a member; and the commune stock of a member of any class of commune shall be liable for the payment of the debts contracted by the communes of that director's district while he was a member and until the 1st day of January next after he ceases to be a member, which liability shall attach and become binding in the order provided in section 3 of this article.

SEC. 2. CLASSIFICATION OF COMMUNES.—There shall be three classes of communes—first, second, and third class.

PARAGRAPH 1. COMMUNES OF FIRST CLASS.—Communes of the first class shall comprise those situated in States whose laws permit the waiver of homestead and execution exemptions of such members, and the members of which actually execute valid waivers of such extemptions and agree and bind themselves to become jointly and severally liable for each and every credit obligation contracted by the members of their respective communes while they were members and until the 1st day of January next after they cease to be members.

SUBPARAGRAPH 1. CREDIT LIMITATION OF THE FIRST CLASS.—The credit of each member of a commune of the first class shall be limited to twenty times his paid-up stock in his commune.

PAR. 2. COMMUNES OF SECOND CLASS.—Communes of the second class shall comprise those situated in States whose laws prohibit the waiver of homestead or execution exemptions, but whose members lawfully agree and bind themselves to become jointly and severally liable for each and every credit obligation contracted or made by the members of their respective communes while they are members thereof and until the 1st day of January next after they cease to be members.

SUBPARAGRAPH 1. CREDIT LIMITATION OF SECOND CLASS.—The credit of each member of a commune of the second class shall be limited to ten times his paid-up stock in his commune.

PAR. 3. COMMUNES OF THIRD CLASS.—Communes of the third class shall comprise those whose members' personal liability shall be unlimited for the credit obligations contracted or made by themselves and for which they become surety, but for the credit obligations of other members their personal liability shall be limited to their unpaid stock subscriptions in their respective communes.

SUBPARAGRAPH 1. CREDIT LIMITATION OF THIRD CLASS.—The credit of each member of a commune of the third class shall be limited to five times his paid-up stock in his commune.

SEC. 3. ORDER IN WHICH LIABILITIES ATTACH.—The order in which liabilities attach shall be as follows: The drawer of a granger or bill of exchange and maker of a promissory note and other credit instruments shall be primarily liable for their payment; next the drawer or maker's surety, if any; next the drawer or maker's commune stock; next the members of the commune of which the drawer or maker is a member, if the commune be of the first or second class; next the surplus of the branch situated in the district in which the drawer or maker's commune is situated; next the stock of all the communes of such district, which liability shall attach to each share of such stock; next the stock of the branch of the district in which the drawer or maker's commune is situated; and finally the guaranty fund: *Provided*, That any loss sustained by a branch other than by the failure of a member to meet his obligation shall be repaired, first, out of the surplus of such branch, and if that be insufficient, then out of the stock of the communes of the district in which such branch is located, and if that be insufficient, then out of the stock of such branch, and finally out of the guaranty fund: *Provided further*, That in no event shall the stock of the communes or branch of one director's district be liable for the debts or defaults of the members, communes, or branch of another director's district.

ARTICLE VI.

SECTION 1. DURATION OF CORPORATION.—The duration of the corporation shall be fifty years, but the Congress hereby retains the right to amend this charter decennially after the twentieth year.

ARTICLE VII.

SECTION 1. CORPORATE POWERS; HOW EXERCISED.—The corporate powers of the society shall be exercised by a board of directors, the members of which shall be elected in the decentralized manner provided in this section of this article, and such officers, agents, and committeemen as the board may elect, except as otherwise expressly provided in this charter. The board shall have power and authority to enact by-laws, rules, and regulations for the society, its branches and communes, their agents and members, not inconsistent with the terms of this charter.

PARAGRAPH 1. CLASSIFICATION OF DIRECTORS.—The classification of directors' districts and the territory comprising each shall be as follows:

First class: First, Alabama; second, Arizona; third, Arkansas; fourth, California; fifth, Colorado; sixth, Connecticut; seventh, Delaware; eighth, Florida; ninth, Georgia; tenth, Idaho; eleventh, Illinois; twelfth, Indiana.

Second class: Thirteenth, Iowa; fourteenth, Kansas; fifteenth, Kentucky; sixteenth, Louisiana; seventeenth, Maine; eighteenth, Maryland and District of Columbia; nineteenth, Massachusetts; twentieth, Michigan; twenty-first, Minnesota; twenty-second, Mississippi; twenty-third, Missouri; twenty-fourth, Montana.

Third class: Twenty-fifth, Nebraska; twenty-sixth, Nevada; twenty-seventh, New Hampshire; twenty-eighth, New Jersey; twenty-ninth, New Mexico; thirtieth, New York; thrity-first, North Carolina; thirty-second, North Dakota; thirty-third, Ohio; thirty-fourth, Oklahoma; thirty-fifth, Oregon; thirty-sixth, Pennsylvania.

Fourth class: Thirty-seventh, Rhode Island; thirty-eighth, South Carolina; thirty-ninth, South Dakota; fortieth, Tennessee; forty-first, Texas; forty-second, Utah; forty-third, Vermont; forty-fourth, Virginia; forty-fifth, Washington; forty-sixth, West Virginia; forty-seventh, Wisconsin; forty-eighth, Wyoming.

PAR. 2. QUORUM.—Each director shall have one vote on the board, and a majority shall consititute a quorum for the transaction of business.

PAR. 3. TERMS OF OFFICE OF DIRECTORS.—The first board of directors shall be divided into four classes in the order provided in paragraph 1 of this section. The term of the first class shall expire on the second Tuesday in January next following; that of the second class one year from that time; that of the third class two years from that time; and that of the fourth class three years from that time, and so on, consecutively, in each and every year thereafter, so that all the directors of one class shall be elected annually thereafter for a term of four years each. All vacancies occurring in the board shall be filled by the advisory council of the respective director's district until the next general election of director for such district.

PAR. 4. QUALIFICATION OF DIRECTORS.—Each director shall be a citizen of the United States and bona fide resident and voting member of a commune of the first or second class and remain such during his term of office.

PAR. 5. MANNER OF ELECTING DIRECTORS.—The directors shall be elected by the ballots of their respective directors' districts, each visor being entitled to cast as many votes as there are members of his commune. Such ballots must be forwarded to the executive office of the society by United States post, inclosed in an official envelope on which the words "Official director's ballot" shall be printed or written in red ink on the address side thereof.

SUBPARAGRAPH 1. BALLOTS AND ENVELOPES—HOW FURNISHED.—It shall be the duty of the secretary, ninety days before the election of a director, to mail one official ballot and envelope to each visor of the district in which such an election is to be held.

SUBPAR. 2. INSPECTORS OF ELECTIONS.—The secretary shall, on the fourth Tuesday in November of each year, in the presence of the auditor or deputy auditor and a censor, open and count the official ballots cast for directors at the election held two weeks previously. Any candidate for director may, at his own expense, appoint, in writing, one representative to be present at such opening and counting, who shall have the privilege to examine each ballot.

PAR. 6. CANDIDATES FOR DIRECTOR.—Each eligible person who desires to become a candidate for director of his district shall notify the secretary four months in advance of such election, and the secretary shall inform such person of the approximate cost in postage and printing necessary to place his name before the visors of his district. If such person, within thirty days after the mailing of such information, make remittance to the secretary to cover such expense, it shall be the further duty of the secretary to cause the name and address of each such candidate to be printed on each ballot sent out by him and mail one of such ballots and official envelopes to each visor of that director's district. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If two candidates tie at any election, then a special election shall be held to decide the contest

between them, such special election to be called by the president for such time as he may deem meet.

PAR. 7. ANNUAL ELECTION OF DIRECTORS.—The annual election for the members of the board of directors to fill the places of the outgoing class shall be on the second Tuesday in November of each year, and the newly elected members of the board shall be inducted into office the second Tuesday in January next following and hold office for a term of four years.

PAR. 8. COMPENSATION OF DIRECTORS.—Each member of the board of directors who attends the annual board or parliamentary session on the first day thereof (the first Tuesday in January of each year) and there remains for three days, shall be paid a salary of $1,000 for the previous fiscal year, ending December 31, together with traveling expenses incurred in attending such session.

SUBPARAGRAPH 1. PENALTY FOR FAILURE OF ATTENDANCE.—Any director who fails to attend two annual board or parliamentary sessions during a single term shall have his office vacated and be rendered ineligible to hold such office thereafter.

PAR. 9. CHAIRMAN OF BOARD.—The board of directors shall elect one of their members chairman, who shall preside at the meetings and sessions of the board and call the board together in extraordinary session by giving each member thirty days' previous notice in writing.

PAR. 10. NONPOLITICAL CONTROL GUARANTEED.—No director shall hold or become a candidate for any elective office under any Government or with any political party during his term of office.

PAR. 11. RECALL OF DIRECTORS AND ADVISORY COUNCILMEN.—The auditor and censors may, when in their judgment the interest of the society or its creditors require it, call a confidence election to recall any member of the board of directors or advisory councils. Three months' previous notice shall be given the person to be recalled, and the reason for initiating such recall set forth in writing and signed by the auditor and a majority of the censors, and a copy thereof mailed to each such person.

SUBPARAGRAPH 1. VOTERS AT CONFIDENCE ELECTIONS.—Each member of a commune situated in the district represented by the director or advisory councilmen to be recalled shall be entitled to cast one vote at each confidence election held therein.

SUBPAR. 2. EFFECT OF CONFIDENCE ELECTIONS.—If a majority of the qualified voters at a confidence election vote in favor of the recall of the person voted on, it shall have the effect of removing him from office and disqualifying him from holding such office thereafter.

PAR. 12. ANNUAL ELECTION OF OFFICERS.—The annual election of officers shall be held on Wednesday next following the second Tuesday in January of each year, on which day the board of directors shall elect a president, vice president, secretary, treasurer, one or more censors, members of the executive committee, such number of inspectors as the business may require, and such other officers as the by-laws may prescribe, which officers shall hold office for a term of one year each and until others are elected in their stead.

PAR. 13. PRESIDENT.—The president shall be the chief executive officer of the society and have authority to appoint the managers of the branches, select the depositaries and fiscal and other agents and clerical force of the society, and fix the compensation of each when the same is not fixed by the board of directors. The vice president shall perform the duties of the president during the absence or inability of the latter to serve and do and perform such other duties as the by-laws may prescribe.

PAR. 14. SECRETARY.—The secretary shall attend all board meetings of the directors and executive committee and keep true records of what transpires thereat, prepare all ballots for the election or recall of directors and councilmen, and open and count such ballots in the presence of the auditor or deputy auditor and a censor, as provided in this charter, and do and perform such other duties as the by-laws may prescribe.

PAR. 15. TREASURER.—The treasurer shall be the custodian of the society's securities and funds, under such safeguards as the by-laws may prescribe, hold one of the keys to the securities vault, and perform such other duties as the by-laws may prescribe.

PAR. 16. CENSORS.—The censors shall have power and authority to attend all board meetings of the directors and executive committee, audit and inspect the books, accounts, papers, properties, and transactions of the society, its branches and communes, become the custodian of one of the keys to the securities vault, approve the schedule of compensation of the auditor and deputy auditors, and jointly with the auditor call confidence elections and inspect the ballots for the election of directors and advisory councilmen, and make annual reports to the Secretary of Agriculture.

SUBPARAGRAPH 1. QUALIFICATION OF CENSORS.—The censors must be, and for five years previous have been, certified public accountants, and they shall be ineligible for reelection.

SUBPAR. 2. NUMBER OF CENSORS.—There shall not be less than one nor more than three censors, the number to be prescribed by the by-laws.

SUBPAR. 3. COMPENSATION OF CENSORS.—Each censor shall be paid a salary, in monthly installments, of $12,000 per annum and traveling expenses incurred while performing his duties.

PAR. 17. EXECUTIVE COMMITTEE.—The executive committee shall be composed of seven voting members of communes of the first or second class. They shall exercise such power and authority as may be delegated to them by the board of directors, which shall not exceed their own power and authority: *Provided*, That any by-law enacted by such committee shall remain in force only until the day next following the next meeting of such board. When the committee enacts a by-law its chairman shall cause a true copy thereof to be mailed to each member of the board. A majority of the members of the executive committee shall constitute a quorum for the transaction of business.

PAR. 18. AUDITORS.—The president of the said Liberty Insurance League shall annually appoint one auditor and such number of deputy auditors as in his judgment the business of the society requires, who shall serve one year each and until others are so appointed in their stead. Such president shall fix the compensation to be paid such appointees by the society and submit a schedule thereof to the censors, which schedule, when approved by the censors, shall become a charge against the society and be paid in monthly installments.

SUBPARAGRAPH 1. AUTHORITY OF AUDITOR AND DEPUTY AUDITORS.—The auditor shall have power and authority to audit the books, accounts, and papers and inspect the securities, properties, and transactions of the society, its branches and communes, attend board meetings, become the custodian of one of the keys to the securities vault, and jointly with the censors call confidence elections to recall directors and advisory councilmen and inspect all elections, and direct the activities of the deputy auditors and prescribe their duties, who may do and perform any duty imposed on the auditor.

SEC. 2. BRANCHES.—There shall be one branch in each director's district, which shall be under the direction and management of a manager, deputy auditor, advisory council, and such other force as the by-laws may prescribe.

PARAGRAPH 1. MANAGER.—The manager shall be the chief executive officer of the branch of his district and shall observe the by-laws enacted by the board of directors, executive committee, advisory council, and supervisors of the communes of his district.

PAR. 2. DEPUTY AUDITOR.—Each deputy auditor shall do and perform such duties as may be assigned him by the auditor, which shall not exceed the power and authority conferred on the auditor under this charter.

PAR. 3. ADVISORY COUNCIL.—Each branch shall have an advisory council composed of five voting members of communes of the first or second class, who shall be citizens of the United States.

SUBPARAGRAPH 1. AUTHORITY OF ADVISORY COUNCIL.—The advisory council shall have power and authority to enact by-laws, rules, and regulations for the branch and communes of their respective districts not inconsistent with the express terms of this charter or the by-laws, rules, and regulations enacted by the board of directors or executive committee.

SUBPAR. 2. ELECTION OF ADVISORY COUNCIL.—The members of the advisory council shall be elected for the same term, at the same time, and in the manner of the election of the director of the respective districts, but by the ballots of the supervisors of the communes of their respective districts, the supervisors voting as a unit and casting as many votes as there are members of their respective communes.

SUBPAR. 3. COMPENSATION OF ADVISORY COUNCIL.—Each member of the advisory council shall receive as a compensation for his services $5 per day and traveling expenses for each day he attends the meetings of such council; but such compensation and traveling expenses shall not exceed $100 during a single year.

SUBPAR. 4. CHAIRMAN.—Each advisory council shall annually elect one of their members as chairman, who shall call meetings of its members.

SUBPAR. 5. QUORUM.—A majority of the members of the advisory council shall constitute a quorum for the transaction of business.

SEC. 3. OFFICERS OF COMMUNES.—The officers of the communes shall consist of a visor, scribe, three or more supervisors, and such visiting and inspection committees as the supervisors may prescribe by by-law. They shall be elected annually by the voting members of their communes at such time as the board of directors may prescribe, and hold office for a term of one year each and until others are elected in their stead.

PARAGRAPH 1. VISOR.—The visor shall be a voting member of his commune and chief executive officer thereof, and shall do and perform such duties as the by-laws may prescribe.

transacted thereby. For example, it shall use the words "life department" to designate the department through which it transacts the business of selling indemnity. endowments, and annuities pertaining to human beings; "live-stock department" to designate the department through which it sells indemnity against loss or injury to domesticated animals and fowls; and "fire department" to designate the department through which it sells indemnity against loss or injury of or to property by fire, water, or the elements.

It shall obtain the approval of the Secretary of Commerce to the word or words used to designate departments other than the three departments herein specifically mentioned.

SUBPARAGRAPH 1. FUNDS OF DEPARTMENTS SEGREGATED.—The league shall segregate the assets, capital, surplus funds, and receipts of each department; and the assets, capital, surplus funds, and receipts of one department shall not be liable for the debts obligations, or defaults of any other department: *Provided*, That the guaranty fund shall be and become a common fund for all departments, as is expressly provided in Article IV of this charter: *Provided further*, That 25 per centum of the general old-age pension fund of the life department shall become a common fund for the protection of the league when the guaranty fund becomes exhausted, subject to the provisions provided in said Article IV and the last paragraph of Article IX.

PAR. 2. CLASSIFICATION OF FUNDS.—Each department shall create and maintain a separate sinking fund and a separate safety fund, and in addition thereto the life department shall create and maintain a general old-age pension fund, and the league shall create and maintain a guaranty fund.

ARTICLE IV.

SECTION 1. CAPITAL.—Each department shall have a capital stock of $100,000, which shall be fully paid in cash before such department begins business. The stock of each department shall be divided into one thousand shares of $100 each, and certificates issued therefor numbering from one to one thousand. The stockholders shall be paid a dividend, if earned, of 7 per centum per annum, which dividend shall be cumulative and paid semiannually. The stock shall be nonassessable.

PARAGRAPH 1. SINKING FUND.—The proceeds from the sale of the capital stock, 1 per centum of the gross premium receipts of each department until its capital stock is retired, and such voluntary donations as may be made thereto, together with the interest accruing thereon, shall constitute the sinking fund of each department creating and maintaining it.

SUBPARAGRAPH 1. OBJECTS OF SINKING FUND.—The objects of the sinking fund shall be to create a fund for the retirement of the capital stock of each department, to raise a guaranty fund, and to better protect the interest of stock and policy holders and cure any impairment in the safety fund of each department.

SUBPAR. 2. RETIREMENT OF STOCK.—The stock of each department must be retired, on the basis voted by a majority in value of the stockholders at their first meeting after the tenth anniversary of the issuance of the first policy of the respective department from the sinking fund of such department: *Provided*, That the stock of no department shall be retired which would leave its sinking fund with less than $1,000,000 of approved assets.

PAR. 2. SAFETY FUND. Each department shall create and maintain a separate safety fund from such portion of its premiums as the by-laws may prescribe.

SUBPARAGRAPH 1. OBJECT OF SAFETY FUND.—The object of the safety fund shall be to cure any impairment in the reserves of the department creating the same.

PAR. 3. GUARANTY FUND.—The remainder of the sinking fund of each department not used in retiring its stock shall be transferred to and become a part of the guaranty fund, which shall be a common fund of the league and under the management of the life department.

SUBPARAGRAPH 1. OBJECTS OF GUARANTY FUND.—The objects of the guaranty fund shall be to better protect the safety fund of each department, and thereby afford better security to the policyholders and creditors of the league. When the safety fund of any department becomes exhausted, then resort shall be had to the guaranty fund for the payment of the claims and creditors of such department: *Provided*, That when such resort is had such department shall not declare or pay a dividend to its policyholders until the principal sum so received is repaid, with interest at the rate of 5 per centum per annum.

ARTICLE V

SECTION 1. DURATION OF LEAGUE.—The duration of the league shall be fifty years, but Congress hereby retains the power of amending this charter decennially after the twentieth year.

Article VI.

Section 1. Preliminary control.—The preliminary corporate powers of the league shall be exercised by the commissioners named in section 3 of the act creating this charter, two of whom shall constitute a quorum for the performance of the duties imposed on them under this charter and the act creating this charter and the charter of the Rural Credit Society.

Paragraph 1. Powers of commissioners.—The commissioners shall have power and authority to negotiate with some solvent and well-established life insurance company having at least $400,000,000 assets, and which is incorporated under the laws of some one of the several States, for the purpose of inducing such a company to surrender its State charter and agree to accept and operate under this charter; to choose three temporary censors and ten temporary censor electors, as provided in Article VII of this charter; to establish the temporary executive office of the league; to issue and sell the stock of the life department for cash at not less than par and deposit the proceeds of such sale in some banks selected by them for the use and benefit of the life department, subject to the league's check when the Secretary of Commerce issues a statement authorizing it to do business, and to arrange with the life department after it is organized to issue and purchase or act as the agent for the issuance and sale of the stock of the other departments at not less than par, and to be paid for in cash as each department is organized; to designate the number of directors of the league during its temporary control and incorporate such number in the articles of agreement referred to in the paragraph next following; to do and perform such duties as are imposed on them in the charter of the Rural Credit Society also created by this act; and to employ such assistants, clerks, and agents as they deem necessary to aid them in performing the duties imposed on them under this charter and the charter creating the Rural Credit Society and this act.

Par. 2. Effect of commissioners' acts.—The procuring of the signatures of the chief executive officer and a majority of the directors or trustees of such an insurance company as is referred to in the paragraph immediately preceding to written articles of agreement to accept and operate under this charter shall have the force and effect of transferring all the assets, properties, contracts, and resources owned and possessed by such company and to which it is entitled to the league, and binding the league to assume all the debts and obligations of such company at the time of the signing of such articles of agreement, any law or statute to the contrary notwithstanding. Such articles of agreement shall be signed by the commissioners or a majority of them and delivered to the Secretary of Commerce; and if he approves the same, he shall issue a written statement authorizing the life department of the league to begin business.

Par. 3. Commissioners to acquire no interest in league.—The commissioners shall acquire no interest in the stock of the league nor accept anything of value or the promise of any office or other reward from the officers, directors, or trustees of the company with which they conduct such negotiations. The commissioners shall receive as a compensation for their services the sum of $2,500 each and traveling expenses incurred by them in performing the duties imposed on them under the two charters created by this act, which shall be paid them out of the $40,000 appropriation made immediately available by the act creating this charter; but such compensation and expenses, together with the compensation and expenses of the assistants, clerks, and agents appointed by them, shall not exceed the last-named sum.

Article VII.

Section 1. Temporary control.—From the date of the execution of the articles of agreement referred to in paragraph 2 of section 1 of Article VI of this charter and until the league's mutualization ten years thereafter, as provided in section 5 of Article VIII, the corporate powers of the league shall be exercised by a board of directors and such officers and agents as such board may elect, except such powers as are by this charter vested in the censors and censors' electors, temporary and permanent.

Sec. 2. Number of directors.—The said articles of agreement shall provide the number of directors, which shall not be less than nine nor more than twenty-five.

Sec. 3. Election of directors.—The first board of directors shall be chosen by the commissioners and named in said articles of agreement, who shall serve until the second Tuesday in April next following, and their successors shall be elected annually thereafter by the stockholders of the life department, each share of such stock being entitled to cast as many votes as there are directors to be elected: *Provided*, That no director shall hold such office after the league's mutualization, but nothing herein is intended to prevent a director from holding the office of trustee when the league becomes mutualized, if he be eligible.

SEC. 4. ELECTION OF OFFICERS.—During the temporary control the officers shall be elected annually by the board of directors.

SEC. 5. QUORUM.—A majority of the board of directors shall constitute a quorum for the transaction of business.

SEC. 6. TEMPORARY CENSORS.—There shall be three temporary censors who, at the time their terms of office begin, must be. and for five years next preceding have been, public certified accountants and citizens of the United States.

SEC. 7. SELECTION OF TEMPORARY CENSORS.—The commissioners shall choose the first board of temporary censors, who shall serve for terms of eight, twelve, and sixteen months, respectively, and their successors shall be elected annually thereafter for a term of one year each by the temporary censors' electors until the permanent censors' electors have qualified; and the temporary censors shall be inducted into office four months apart after the expiration of the terms of the first board.

PARAGRAPH 1. TEMPORARY CENSORS' ELECTORS.—There shall be ten temporary censors' electors, each of whom must be a citizen of the United States who has carried on his own life, for a period of not less than ten years and in an amount for not less than $10,000, a policy of insurance with the company agreeing to accept and operate under this charter, but who holds no office or other position with such company and who, while serving as such, shall hold no office or other position with the league. No two of them shall be residents of the same State. The commissioners shall choose the first board of temporary censors' electors, and any vacancy occurring in such board shall be filled by those remaining.

PAR. 2. DUTIES OF TEMPORARY CENSORS' ELECTORS.—Each temporary censors' elector shall possess the privilege of nominating one eligible candidate for temporary censor at each temporary censors' election and to cast one vote for three candidates thereat, and to nominate one eligible candidate to fill any vacancy which may occur in the board of temporary censors' electors and to cast one vote at such election. All such elections shall be by ballot and all ballots must be mailed to the secretary at the league's executive office by United States post in envelopes with the words "Temporary censors' ballot" or "Temporary censors' elector ballot," as the case may be, written or printed in red ink on the address side thereof. Such ballots shall be safely preserved by the secretary and opened and counted in the presence of the temporary censors ten days after each such election. The temporary censors' electors shall fix the time of such election to suit their convenience, and the time so fixed by them shall be reduced to writing, signed by a majority of them, and mailed to the secretary to be preserved as a permanent record of the league.

PAR. 3. COMPENSATION OF TEMPORARY CENSORS' ELECTORS.—On the 31st day of December in each year the league's treasurer shall pay $1,000 to each temporary censors' elector who shall have voted that year at each election referred to in the paragraph immediately preceding.

SEC. 8. POWERS OF TEMPORARY CENSORS.—The temporary censors shall have power and authority to supervise all elections, verify the statements, audit the accounts, and inspect the books, papers, transactions, and properties of the league, attend board and committee meetings, become the custodian of one of the keys to the securities vault, and approve each by-law, contract, and agreement of the league in which a director, trustee, or officer is to acquire a direct personal interest.

PARAGRAPH 1. COMPENSATION OF TEMPORARY CENSOR.—Each temporary censor shall be paid a salary of $12,000 annually, in equal monthly installments, and traveling expenses incurred by him in performing his duties.

PAR. 2. INELIGIBLE FOR REELECTION.—A temporary censor shall be ineligible for reelection.

ARTICLE VIII.

SECTION 1. PERMANENT CONTROL.—When the league becomes mutualized, as provided in section 5 of this article, its corporate powers shall be exercised by a board of trustees and such officers and agents as such board may elect, except as otherwise expressly provided in this charter.

SEC. 2. NUMBER OF TRUSTEES.—The board of trustees shall consist of as many persons as there are trustee districts, if an eligible person therein be duly elected therefrom.

SEC. 3. TRUSTEE DISTRICTS.—The number and classification of trustee districts and the territory comprising each shall be as follows:

First class: First, Alabama; second, Arizona; third, Arkansas; fourth, California; fifth, Colorado; sixth, Connecticut; seventh, Delaware; eighth, District of Columbia; ninth, Florida; tenth, Georgia.

Second class: Eleventh, Idaho; twelfth, Illinois; thirteenth, Indiana; fourteenth, Iowa; fifteenth, Kansas; sixteenth, Kentucky; seventeenth, Louisiana; eighteenth, Maine; nineteenth, Maryland; twentieth, Massachusetts.

Third class: Twenty-first, Michigan; twenty-second, Minnesota; twenty-third, Mississippi; twenty-fourth, Missouri; twenty-fifth, Montana; twenty-sixth, Nebraska; twenty-seventh, Nevada; twenty-eighth, New Hampshire; twenty-ninth, New Jersey; thirtieth, New Mexico.

Fourth class: Thirty-first, New York; thirty-second, North Carolina; thirty-third, North Dakota; thirty-fourth, Ohio; thirty-fifth, Oklahoma; thirty-sixth, Oregon; thirty-seventh, Pennsylvania; thirty-eighth, Rhode Island; thirty-ninth, South Carolina; fortieth, South Dakota.

Fifth class: Forty-first, Tennessee; forty-second, Texas; forty-third, Utah; forty-fourth, Vermont; forty-fifth, Virginia; forty-sixth, Washington; forty-seventh, West Virginia; forty-eighth, Wisconsin; forty-ninth, Wyoming.

SEC. 4. QUORUM.—Each member of the board of trustees shall have one vote on the board, and a majority shall constitute a quorum.

SEC. 5. MUTUALIZATION OF LEAGUE.—Ten years from the execution of the articles of agreement referred to in paragraph 2 of section 1 of Article VI of this charter, the board of directors must meet for the purpose of mutualizaing the league by electing one eligible person from each trustee district, and the persons so elected shall constitute the league's first board of trustees. Such trustees shall be divided into five classes, in the order provided in section 3 of this article. The term of the first class shall expire on the second Tuesday in April next following; that of the second class one year from that time; that of the third class two years from that time; that of the fourth class three years from that time; and that of the fifth class four years from that time; and so on, consecutively, in each and every year thereafter, so that all of one class shall be elected annually for a term of five years. All vacancies occurring on the board of trustees by death, resignation, or otherwise shall be filled by the members of the board remaining until the next general election: *Provided*, That when a vacancy occurs by reason of the recall of a trustee at a confidence election, as provided in paragraph 2 of section 10 of this article, a special election must be called by the president within six, and not sooner than four, months after such vacancy occurs to fill such unexpired term.

SEC. 6. QUALIFICATION OF TRUSTEES.—Each trustee shall be a citizen of the United States, bona fide resident of his district, and qualified positive elector of the league, and remain such during his term of office.

SEC. 7. ANNUAL ELECTION OF TRUSTEES.—The annual election of trustees to fill the places of the outgoing class shall be on the second Tuesday in March of each year, and the newly elected member shall take charge of their office on the second Tuesday next following.

SEC. 8. MANNER OF ELECTING TRUSTEES.—The trustees shall be elected by the ballots of the qualified positive electors residing in their respective trustee districts. Such ballots shall be mailed to the secretary at the league's executive office by United States post in official envelopes, with the words "Official trustee ballot" written or printed in red ink on the address side thereof.

PARAGRAPH 1. BALLOTS AND ENVELOPES; HOW FURNISHED.—It shall be the duty of the secretary thirty days before an election of trustee to mail one official ballot and envelope to each qualified positive elector residing in the trustee district in which such election is to be held.

PAR. 2. OPENING, COUNTING, AND INSPECTING BALLOTS.—The secretary shall, on the fourth Tuesday in March of each year, open and count the ballots cast for trustees at the election held two weeks before in the presence of the censors, who shall inspect and count the same. Any candidate at such election may, at his own expense, appear at such opening and counting, either in person or by one representative appointed by him in writing, who may also inspect the same.

PAR. 3. CANDIDATES FOR TRUSTEE.—Each eligible person who desires to become a candidate for trustee of his district must notify the secretary of such desire three months before an election, and the secretary shall inform such person of the approximate expense of postage and printing necessary to place his name before the qualified positive electors of his district. If such person, within twenty days after mailing such information, make remittance to cover such approximate expense, it shall be the further duty of the secretary to cause the name, address, occupation, and business or professional connections of each such candidate to be printed on each ballot sent out by him, and mail one of such ballots to each qualified positive elector who has resided in such district one or more years. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If candidates tie at an election, a special election shall be held one month after the opening and counting of such ballots to decide the issue between them.

SEC. 9. POSITIVE ELECTOR DEFINED.—Each citizen of the United States who has been a bona fide resident of a trustee district for at least one year and who carries

and has carried for a period of at least ten years a policy or policies of insurance on his own life with the league or company reinsured by it, which policy or policies have unencumbered reserve values aggregating not less than $5,000 (such reserves to be calculated on the American experience table of mortality with interest at 3 per centum per annum on the net premium basis), is defined to be a positive elector, and shall be entitled to hold the office of trustee and to cast one ballot for a candidate for trustee of a district in which at least twenty qualified positive electors reside and have resided at least one year, unless he shall have been disqualified, as provided in paragraph 1 of this section.

PARAGRAPH 1. DISQUALIFICATION OF POSITIVE ELECTORS.—Any positive elector may be disqualified as follows: First, by himself, either by making a written request of the league for that express purpose or by failure or refusal to exercise his privilege to vote at a trustee election when entitled to do so; second, or by the negative electors at a confidence election, as provided in paragraph 2 of section 10 of this article. No disqualified positive elector shall vote for trustee or hold such office.

SEC. 10. NEGATIVE ELECTOR DEFINED.—Each citizen of the United States who has been a bona fide resident of a trustee district for at least one year and who carries and has carried for a period of at least ten years a policy or policies of insurance on his own life with the league or company reinsured by it, which policies have unencumbered reserve values aggregating not less than $500 nor more than $5,000 (such reserves to be calculated on the same basis as provided in section 9 of this article), is defined to be a negative collector and shall be entitled to cast one vote by official ballot at each confidence election held in his confidence election district to disqualify a qualified positive elector or electors residing in the same district.

PARAGRAPH 1. CONFIDENCE ELECTION DISTRICTS.—The District of Columbia, each county, each parish in a State having no county government, and each city not embraced in a county or parish but situated in a trustee district, shall constitute a separate confidence election district.

PAR. 2. MANNER OF CALLING CONFIDENCE ELECTIONS.—When 25 per centum of the negative electors of a confidence election district petition the league in writing to cast a vote of confidence on one or any number of qualified positive electors residing therein, it shall be the duty of the secretary to prepare ballots containing the names of the qualified positive electors to be voted on and mail one to each negative elector thereof, together with an official envelope. If a majority of the negative electors of such district vote a lack of confidence in any qualified positive elector, it shall have the effect of disqualifying him from thereafter voting for trustee or holding such office. The president, a majority of the censors or temporary censors, as the case may be, or 20 per centum of the trustees may call confidence elections at will: *Provided*, That not more than one confidence election shall be held during a period of five years to disqualify the same qualified positive elector.

SEC. 11. ANNUAL ELECTION OF OFFICERS.—The board of trustees shall, on Wednesday next following the second Tuesday in April of each year, elect a president, secretary, seven members of the advisory council, and such other officers as the by-laws mav prescribe.

PARAGRAPH 1. TERMS OF OFFICE OF OFFICERS.—The officers shall be elected for a term of one year each and until others are elected in their stead.

SEC. 12. ADVISORY COUNCIL.—The advisory council shall consist of not less than seven nor more than fifteen persons, who shall be qualified positive electors.

PARAGRAPH 1. POWER OF ADVISORY COUNCIL.—The advisory council may exercise such power and authority as shall be delegated to them by the board of trustees, which shall not exceed the power and authority such board may exercise under this charter: *Provided*, That any by-law enacted by the advisory council shall remain in force and effect only until the day following the next meeting of the board, and the chairman of such council shall immediately upon the enactment of a by-law notify each member of the board of the same and furnish each with a true copy thereof.

SEC. 13. CENSORS.—The directors and trustees are authorized to negotiate with the United Commercial Travelers of America, a fraternal association with its supreme council in Columbus, Ohio, or the Travelers' Protective Association with its supreme council in Saint Louis, Missouri, for the purpose of inducing one of them to make the life department of the league the official life insurance company for its members, under such terms and conditions as may be mutually agreed upon by the board of directors or trustees of the league and duly authorized officials of such fraternal association and approved by the Secretary of Commerce. When such agreement is duly and properly executed, then each member of such fraternal association residing in a censor's district and carrying on his own life, with the league or company reinsured by it, a policy of insurance for not less than $1,000, is defined to be a censor's elector and shall be entitled to nominate one candidate for censor at each censor's election held therein and cast one vote at such election.

PARAGRAPH 1. DESIGNATION OF DISTRICTS TO HOLD CENSORS' ELECTIONS.—At each annual election of officers the board of trustees shall designate three districts in which censors' elections shall be held the following year. If the board fails or refuses to designate such districts, the censors in office shall perform such duty.

PAR. 2. NUMBER AND QUALIFICATION OF CENSORS.—There shall be three censors elected annually for a term of one year each, who shall take charge of their office four months apart and be ineligible for reelection. A censor must be, and for five years next preceding his election have been, a public certified accountant, and a resident of or maintain a business office in the censor's district from which he is elected.

PAR. 3. CENSOR'S DISTRICT.—A censor's district shall comprise a city in the United States with a population of not less than one hundred thousand in which such fraternal association has a local council with at least ten qualified censors' electors.

PAR. 4. CENSORS FROM SEPARATE STATES.—No two censors serving at one time shall be residents of the same trustee district.

PAR. 5. METHOD OF ELECTING CENSORS.—The agreement between the league and such fraternal association shall prescribe the method of holding censors' elections, which shall have the force and effect of a by-law and not subject to amendment or repeal except by the mutual consent of the board of trustees and the supreme council of such fraternal association: *Provided*, That until censor's electors have qualified in at least ten censors' districts the temporary censors' electors shall continue to elect temporary censors.

SUBPARAGRAPH 1. PROHIBITION AGAINST CENSORS' ELECTORS.—No censor's elector shall hold any office or other position with the league nor recommend any person for an office or other position with it, and any censor's elector violating the provisions of this subparagraph shall be rendered ineligible to vote at a censor's election.

PAR. 6. COMPENSATION OF CENSORS.—Each censor shall be paid an annual salary of $12,000, in equal monthly installments, and traveling expenses incurred by him while performing his duties.

PAR. 7. AUTHORITY OF CENSORS.—The censors shall have power and authority to supervise all elections, call confidence elections, audit the accounts, verify the statements, and inspect the books, papers, transactions, and properties of the league, become the custodians of one of the keys to the securities vault, and approve each by-law, contract, and agreement in which a director, trustee, or officer making the same is to acquire a direct personal interest.

PAR. 8. SPECIAL OLD-AGE PENSION FUND.—In consideration of the service such fraternal association would render the league in keeping it properly inspected, the board of directors and trustees are authorized to raise a special old-age pension fund for the sole use and benefit of the members of such fraternal association as may be mutually agreed upon by the board of directors or trustees of the league and the supreme council of such fraternal association: *Provided*, That no person holding an office or other position with the league shall become a beneficiary of such fund.

SEC. 14. POLITICAL CONTROL PROHIBITED.—No member of the board of trustees or advisory council shall become a candidate for or hold any elective office under any Government or with any political party while holding either of such places of trust with the league.

ARTICLE IX.

SECTION 1. GENERAL OLD-AGE PENSION FUND.—When the stock of the life department is retired, such department shall begin the accumulation of a general old-age pension fund by placing therein such portion of its premium income as the by-laws may prescribe, not to exceed one-tenth of 1 per centum, the interest and other income from which shall become available at such time as the board of trustees may decide, and paid annually thereafter in the manner and to the persons complying with one of the requirements imposed in paragraph 1 of this section.

PARAGRAPH 1. BENEFICIARIES OF GENERAL OLD-AGE PENSION FUND.—Each person who has in full force and effect an unencumbered insurance or deferred forfeitable annuity contract which he has carried on his own life with the league or company reinsured by it, for the amount and time, and who has attained the age prescribed, respectively, in one of the following four subdivisions of this paragraph, shall be entitled per capita to an equal portion of the yearly available income of the general old-age pension fund:

First. Those who for forty years have carried such insurance for not less than $1,000, or such annuity on which the premiums aggregate $100, and have attained the age of sixty-five years.

Second. Or those who for thirty years have carried such insurance for not less than $2,000, or such annuity on which the premiums aggregate $200, and have attained the age of sixty-seven years.

Third. Or those who for twenty years have carried such insurance for not less than $3,000, or such annuity on which the premiums aggregate $300, and have attained the age of sixty-eight years.

Fourth. Or those who for ten years have carried such insurance for not less than $4,000, or such annuity on which the premiums aggregate $400, and have attained the age of seventy years.

PAR. 2. ENDOWMENT OF GENERAL OLD-AGE PENSION FUND.—Any person may voluntarily endow the general old-age pension fund, the income from which to become available and payable to beneficiaries at such time or the happening of such event and under such terms as may be mutually agreed upon in writing by and between the endower and the board of directors or trustees; but the available income from every such endowment must be general and apply and be paid, without exception, as is expressly provided in paragraph 1 of this section.

PAR. 3. BENEFACTORS' NAMES TO APPEAR.—Each person endiwing the general old-age pension fund in a sum for not less than $1,000,000 shall have the right to designate the name of one benefator, which name shall be printed on each check remitting the available portion of such fund to the beneficiaries thereof, such names to appear in the order in which the endowments are made, beginning with the first.

PAR. 4. OBJECTS OF GENERAL OLD-AGE PENSION FUND.—The objects of the general old-age pension fund are to encourage our youth to capitalize their future income and protect themselves against want in old age and to better protect the interests of policyholders of all departments. To meet the last-stated object it is provided that in the event the guaranty fund becomes exhausted from any cause, then, and in such event only, shall the general old-age pension fund be liable to the extent of 25 per centum; but the department causing such exhaustion shall not declare or pay a dividend to its stock or policy holders until the general old-age pension fund is fully reimbursed, both in principal and interest, at the rate of 5 per centum per annum for the sum so used.

ARTICLE X.

SECTION 1. OBLIGATION TO RURAL CREDIT SOCIETY.—The life department of the league hereby becomes obligated to the Rural Credit Society as follows:

First. To invest $50,000 in the capital stock of each of the forty-eight branches of said society, each of such investments to be made within thirty days after the Secretary of Agriculture notifies the league of the organization of the respective branch.

Second. To purchase at the market price and at all times carry $100,000 of the credit paper of each branch of said society, provided such society has such an amount it is willing to sell to the league.

Third. To select annually one auditor and such number of deputy auditors for said society as the president of the league deems necessary for the business requirements of said society, and prepare a schedule of compensation for them and submit the same to the censors of said society for approval.

Fourth. And to act as trustee for the acceptance from the Government of the United States of the guaranty fund of said society, invest the same, and pay into the society's treasury the principal and accrued interest of said fund, less one-half of 1 per centum per annum as the league's compensation for the risk and expense of such trust, at such time or times and in such amounts as the Secretary of Agriculture may require.

PARAGRAPH 1. OBLIGATIONS ENFORCED IN THE COURTS.—The Rural Credit Society may enforce the obligations imposed on the league in this article by resort to any court of law or equity in the United States having jurisdiction of the matter.

ARTICLE XI.

SECTION 1. TAXES.—The league shall pay into the Treasury of the United States 2 per centum per annum on its paid-up capital stock of each department and such rates on its real estate owned by it to the States where situated as may be provided by the laws of such States.

PARAGRAPH 1. SECOND-CLASS MAIL PRIVILEGE.—The league's premium and policyholders' dividend notices and receipts and periodical bulletins to its policyholders shall be rated as second-class matter and sent through the mails of the United States as such, under such rules and regulations as the Postmaster General may prescribe.

ARTICLE XII.

SECTION 1. STATEMENTS.—The league shall render such statements to the Department of Commerce as the Secretary of Commerce may require.

PARAGRAPH 1. QUINQUENNIAL STATEMENTS.—The league shall quinquennially publish a full itemized statement, including all by-laws, and send to any public library in the United States a copy thereof which makes written request therefor three months before such publication and remits to cover the expense in sending out the same.

ARTICLE XIII.

SECTION 1. LEGAL PROCESS AGENT.—The league shall at all times have an agent in the District of Columbia and each of the several States on whom legal process may be served and furnish the Secretary of Commerce with a list of the same.

ARTICLE XIV.

SECTION 1. CONGRESS TO PRESCRIBE PENALTIES.—The Congress shall enact appropriate legislation imposing penalties for the violation of the terms of this charter and the league's by-laws and for crimes and misdemeanors against the corporation.

SEC. 7. That any president, vice president, director, trustee, member of the advisory council, censor, temporary censor, inspector, medical examiner, secretary, officer, manager, agent, or other representative of the league, who embezzles, abstracts, or willfully misappropriates any of the moneys, funds, or credits of the league; or who knowingly, without first obtaining the written approval of the censors or temporary censors, makes a contract or enacts a by-law for the league through which he is to acquire a direct personal pecuniary interest; or who makes any false entry in any book, report, or statement of the league, with intent, in either case, to injure or defraud the league or any company, body politic or corporate, or any firm or individual person, or to deceive any officer or censor or temporary censor of the league: or obtains or causes to be obtained any policy or other contract from the league for the purpose of defrauding it; and every person who with like intent aids or abets any officer, clerk, agent, medical examiner, or other representative of the league in the violation of this section shall be deemed guilty of a misdemeanor, and shall upon conviction be imprisoned for not less than two nor more than ten years.

SEC. 8. That the sum of $25,040,000 is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, to effect the purposes of this act, of which $40,000 shall become available immediately to defray the preliminary expense of putting this act in operation. Such last-mentioned sum, or so much thereof as may be necessary, shall be paid by the Treasurer upon the presentation to him of vouchers duly signed by the chairman of said commissioners and approved by the Auditor of the Treasury. The commissioners shall elect one of their number as chairman, who shall preside at their meetings, call the commissioners together, direct the activities of themselves and such experts, agents, and clerks as they may appoint to aid them, and sign all vouchers on the Treasurer, which vouchers shall not aggregate the sum of $40,000. The commissioners shall fix the compensation to be allowed the experts, agents, and clerks appointed to aid them. They shall be compensated by a salary of $2,500 each and traveling expenses incurred by them in performing the duties imposed on them under this act.

The said sum of $25,000,000 hereby appropriated shall become available when said commissioners have caused the articles of agreement referred to in paragraph 2 of section 1 of Article VI of the said Liberty Insurance League charter, created by this act, to be signed and executed in the manner therein prescribed and approved by the Secretary of Commerce, when said sum shall be paid into the treasury of said league by the Treasurer of the United States upon the presentation to him of a voucher duly signed by the Secretary of Commerce and approved by the Auditor of the Treasury.

(Thereupon, at 4.05 o'clock p. m., the commission adjourned to meet at 10 o'clock a. m., Monday, August 22, 1921.)

AGRICULTURAL INQUIRY.

MONDAY, AUGUST 22, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met at 10 o'clock a. m. pursuant to adjournment on Friday, in room 70, the Capitol, Hon. Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. The commission will hear Mr. J. S. Wannamaker, representing the American Cotton Association, is it?

Mr. WANNAMAKER. Yes, sir.

The CHAIRMAN. Give your position in that association.

Mr. WANNAMAKER. I am president.

STATEMENT OF MR. J. S. WANNAMAKER, PRESIDENT AMERICAN COTTON ASSOCIATION, ST. MATTHEWS, S. C.

Mr. WANNAMAKER. Mr. Chairman, how long am I supposed to take? I do not want to impose on the commission.

The CHAIRMAN. The commission, I imagine, will have to take a recess when the House convenes, or very soon thereafter. We did not expect to have an afternoon session, but if you can not conclude before our recess we could have an afternoon session, I anticipate.

Mr. WANNAMAKER. I do not think it will be possible for me to complete my statement at the morning session, but at the same time I will limit it to any time the commission may wish.

The CHAIRMAN. We do not wish to limit you, and if you can not finish before we have to go to the House we will have an afternoon session.

Mr. WANNAMAKER. Mr. Chairman, should not I be sworn before I testify?

The CHAIRMAN. That has not been the custom of the commission.

Mr. WANNAMAKER. All right.

The CHAIRMAN. You may proceed with your statement.

Mr. WANNAMAKER. Mr. Chairman and gentlemen of the commission, while I am appearing before you in the interest of cotton I would feel great regret if you should reach the conclusion that it is the object of my testimony to have you give any special consideration to cotton as a branch of the greatest industry in America, agriculture.

The agricultural interests in America aggregate practically $80,000,000,000. It is really the greatest industry of our country; in fact, there are only three sources of primary wealth in America, agriculture being, of course, the major producing industry.

The investment in American agriculture amounts to $80,000,000,000. It is the largest asset of the Nation. If the farmers of the United States should decide to go into another business and sell all of their live stock and crops for just one year they would have enough to buy all of the railroads of the Nation with all of the rolling stock and other equipment. If they were also to sell all of their lands together with their live stock and crops, they could buy all the railroads, all the manufacturing establishments now on record, and all the mines and all the quarries. It would, indeed, be but an even exchange between all the farm property and all the other producing property of the United States, except the purely mercantile establishments.

The expenditures of the Government would seem to plainly indicate that the importance of our agricultural industry is entirely overlooked.

Your specific attention is called to the enormous expenditures of the Government's income for destructive rather than for constructive purposes. Our total national appropriations for 1920 amounted to $5,686,000,000. Of this total, 68 per cent was paid out for past wars; 25 per cent for future wars and the maintenance of the Army and Navy; 3 per cent for civil government; 3 per cent for public works; and 1 per cent for education and agriculture. The cost of each one of our new battleships was $40,000,000, and its annual upkeep amounts to $3,000,000. The Government appropriates to the whole of American agriculture less than the cost of a single first battleship, which goes to the junk pile in a few years or is sunk at sea from target practice.

No country can prosper indefinitely which spends 93 per cent of its income—burdens on the people—for destructive purposes, while at the same time permitting its agriculture to decay for want of proper support.

Mr. Chairman, it shall be my object in going into this matter to review, not with any intention whatever or thought that you are not much more familiar with the subject than I am, but for the purpose of making my position clear. I say it is my object to review the effect of these conditions upon agriculture following great periods of inflation, wherever there has followed artificial drastic deflation.

Senator HARRISON. May I ask you at this point, have you read the testimony of Gov. Harding and Gov. Strong and Mr. John Skelton Williams?

Mr. WANNAMAKER. I only got that testimony last night. I could not possibly prepare these matters and do more than read Gov. Harding's testimony before the commission, but I will touch on that matter later on if satisfactory to you?

Senator HARRISON. Very well.

Mr. WANNAMAKER. Secondly, I want to consider the effect these conditions have had upon agriculture in the main agricultural producing countries to-day, and the effect they have had upon commerce and finances.

Third. I want to bring to the attention of the commission the fact, because I state it as a fact, that never in all time, tracing back throughout history, can I find record of where the agricultural producers were more thoroughly posted upon the effect of artificial deflation, the disastrous effect it would have upon their industry, in case it were attempted, than was the case with the cotton producers of the South.

I defy any man to produce a record that will show where more precaution was used, more efforts were made, to find out if there would be artificial drastic deflation. And, Mr. Chairman and gentlemen of the commission, I want to make this statement concerning artificial drastic deflation, that the burned child fears fire. I passed through the drastic deflation of 1873, and had a personal experience in connection therewith.

Artificial deflation in America affects cotton more seriously than any other line of agriculture. It has paralyzed every line of agriculture during a period from a thousand years before the birth of Christ, of which you can find ample record, up to the present time, whenever agriculture reached any state of development.

As I have said, I passed through the period of 1873. I saw then what I see to-day and what you are going to see. I saw properties sold for taxes. I saw children taken home from school. I saw suicides, insanity, bankruptcy. I saw all that in 1873. I saw school-house doors slammed in the faces of thousands of boys and girls throughout our land. I saw a school-house door slammed in my face. And with this experience, Mr. Chairman and gentlemen of the commission, if I did not have sufficient common sense as the head of the organization I represent, embracing one-third of the agriculture of America, to use every God-given effort I could put forth to prevent agriculture being caught in this condition again, I would be most assuredly displaying a lack of the first fundamental of good judgment.

Mr. Chairman, I made the prediction—and I am not stating it here because my prediction has been verified like my distinguished friend, Gov. Harding, of the Federal Reserve Board, said his prediction has been verified, for God knows I would be delighted if my prediction had not been verified—but I made the statement when I realized artificial drastic deflation was being forced; yes, I made it in this city, standing in the Treasurer's office, with 60 representatives of the various branches of agriculture present, and a great number from other businesses, and representing practically every State in this Union—I made the statement to the then Secretary of the Treasury, David R. Houston: If you continue the effort already begun toward producing artificial drastic deflation the result will be many additional graves in America filled with suicides. I told him it would increase insanity, that it would bring about bankruptcy, that it would bring to America the worst period that ever faced any nation in all time and of which we find any record.

And, Mr. Chairman and gentlemen of the commission, what are the indications before us to-day? The indications are that that prediction is going to be fulfilled. I pray to God it will not. I sincerely hope and believe that your commission will reach a solution of this question which will apply a remedy before the calamity has befallen our country such as the world never before saw. I most assuredly think we should apply a remedy before disastrous artificial deflation produces more serious conditions than now exist.

Senator HARRISON. Further on do you intend to offer any suggestions along that line?

Mr. WANNAMAKER. Yes, sir; I am going to offer suggestions in regard to that, Senator Harrison.

Senator HARRISON. Very well.

Mr. WANNAMAKER. Some three weeks ago I sent out a questionnaire into the agricultural sections of America. I did not send it alone into the 14 cotton-growing States of the South. I sent it into the West. I sent it into the cattle-growing regions of the country, and, in fact, sent it practically into all agricultural sections of America, into all sections save those that have very limited agricultural interests.

This questionnaire was largely sent out to the men who are so well versed in agriculture that they can understand it thoroughly, without ever having engaged in it; the man in the city, engaged in finances, I might say. I sent it to the men who are absolutely in touch with the avocation. Following are some of the questions asked:

Question No. 1: What effect has this had upon you individually? What effect has it had upon your community and upon your section? To whom do you attribute the conditions to-day? Upon whom do you place the blame? Can you pay your debts? Have you paid your taxes?

And, gentlemen of the commission, to this first question 98 per cent of the answers came:

We place the blame for the conditions that exist to-day upon the policy of the Federal Reserve Board.

I repeat, 98 per cent of the answers, and there were thousands of these questionnaires sent out and answered, made that statement.

To the question "Can you pay your debts?" 98 per cent of the farmers of the South answered:

No; and our children can not even pay them, because we created these debts at the peak of high prices and we could not dispose of our product until God Almighty in His Providence helped to make it ready for the market; and when we went to the market with our cotton, our corn, our wheat, we found the market without buyers; and only in a limited way did we get about one-third the cost of production.

To the question "What effect did it have upon the education of your children?"—and that is an important question—a number of States answered in this way:

If it were not for the compulsory school attendance law our children would be taken out of school. Where it is possible to take them out a large percentage of the children have been taken from school.

A great many sections reported that they have been unable to pay school-teachers. From numbers and numbers of States came the statement:

We are going to have to take our children home from schools and colleges.

I hold in my hand the questionnaire I sent out, but I am not going into detail; I am only stating a few of the questions asked.

One question was: "Did you hear of any effort to reduce acreage in the matter of the main American staple crops in case drastic artificial deflation was contemplated?" You would be amazed to know the number of men who answered to that:

Yes; but we were told that artificial deflation was not going to be permitted. We were told that the committee that arranged a way to finance this great war, when they arranged for a sale of the Liberty bonds, that it would be necessary to have a period of inflation for many years following the war.

We operated our farms largely as a matter of service and without profit during the war and after the close of the war we were urged to produce to the limit, that there would be a pressing demand for our products; that it would be necessary for Europe to have a vast amount of raw products to enable them to rehabilitate and start to

repay their stupendous war debts; that America would have the opportunity of world trade, and there would be enormously increasing demand for our products both at home and abroad, as it would be necessary for the people of the world to become intensely busy, as it was only through the efforts of men that the enormous war debts could be met and civilization rebuilt. It was based upon this that we planted our 1920 crops. When our crops were ripening in the fields deflation came; we had incurred the expense of production at high prices; when the crops were ready for market we were unable to sell them except in a limited way at less than one-third of the cost of production.

Man after man wrote a letter and had his son, the boy who had come across from the other side after fighting the battles over there, to sign it. This son said, in effect:

I came back and engaged in agriculture in an effort to make up for the time I lost in the war, but to-day I am bankrupt.

Man after man sent in this statement:

I hesitated to plant until the very last minute, and then I planted upon the assurance that there would be no drastic artificial deflation.

Gentlemen of the commission, I am going to stop right here for one second to say——

The CHAIRMAN (interposing). Who do you think could have given assurance that there would be no deflation?

Mr. WANNAMAKER. I would be very glad if you would ask me that question a little later on and I will then give you some written records on it. I will answer the question now if you wish, but would prefer to answer it a little later on and then to go into the written records to substantiate my statement.

The CHAIRMAN. Very well, if you prefer, you may do that.

Mr. WANNAMAKER. Mr. Chairman and gentlemen of the commission, history tells us that 594 years before the birth of Christ—and you gentlemen are very much more familiar with history than I am, but I want to state this because probably with your multitude of duties, the numerous duties imposed upon you, you might overlook some of these things—that 594 years before the birth of Christ a somewhat similar period followed a time of inflation. And we must keep in mind that always following great wars there is a period of inflation. And why is it so?

(1) Because of nonproduction by people engaged in war.

(2) Because of abnormal consumption during the war.

(3) Because Governments themselves, even from the very earliest records, encourage inflation for the purpose of being able to finance wars.

History tells us that in Greece beginning 594 years before the birth of Christ there have been periods of great inflation following great wars.

We find that the people were prosperous. We find that they had something we need in the South to-day. The country was thickly settled with small farmers and not with great tracts of land thinly populated and poorly cultivated; and that they cultivated these farms intensively and reached a high state of cultivation. But we find that following those periods the great money powers frequently did what has been done here. The great money powers got together and raised the rate of interest. And I will defy any economist to show me in all time where raising the rate of interest has had any other effect upon prices than to force them down.

Of course, in this respect I do not mean some temporary small raise in the interest rate. I do not think any economist of any standing whatever will dispute that proposition. They raised the rate to an usurious point—and I state that to-day in America interest is usurious, has reached that point—and disastrous results always followed.

In addition to raising interest rates they contracted the circulating medium. That resulted in what? Property owners who were independent before that action was taken, out of debt, became so wrapped up in debt that the money lenders took claim upon bodily security. Greece practically became enslaved, and the only men who held their property were practically like Irish cottiers. They only owned the land nominally, and I wish we had to-day what they had then, so the terrible situation might be called more definitely to our attention. At the corner of each piece of property was set up a marble slab, and on the marble slab was engraved the amount of the debt and to whom it was owed. If that condition were in effect at this time in our land and the conditions now existing and fast growing worse continues, the agricultural sections of this country would look like a national cemetery.

Realizing what will inevitably follow, what always follows drastic artificial deflation, Solon, the ruler of Greece, declared a wiping off of debt, and all debts were wiped off; and he established a law, which has held from that time to this day, that security for debt could not be taken upon the body, that there should no longer be such a thing as bodily security. Greece provided that the money lenders could take security only upon the property of the man contracting the loan. But they did not stop there. They established a rate of interest to be charged, to be settled between borrower and lender. And Greece enjoyed a long period of prosperity.

I want to cite you to another period: Ninety-four years before the birth of Christ, interest rates in the city of Rome were only 4 per cent, yet out in the provinces in connection with agriculture and merchandising, the rates had gone up as high as 16 per cent. There was again great complaint. There was complaint that the same condition that existed in Greece would arise. Justinian, then ruling, reduced interest rates by mandate on mercantile paper on the maximum not to exceed 8 per cent, and on agricultural paper not to exceed 6 per cent. As a result of that action again came great prosperity. And I defy anyone to find high interest rates and contraction of credits and contraction of currency coexistent with prosperity.

Leaving those periods of which history tells us and coming on over to America—and I do not want to take up too much of the time of the commission—I find that a great American citizen and President, Abraham Lincoln, in oral addresses and in written documents, pleaded and begged and warned against drastic artificial deflation following the War between the States. He said, in effect:

> Any movement to artificially deflate before the debt can be paid, to change the medium of circulation upon which the debt was contracted, would be a crime.

In another warning, in effect, he said:

> I warn the American people not to permit a repetition of the crimes of history. Following great periods of inflation if drastic artificial deflation is attempted disastrous results must follow. I warn them not to permit the money powers to take ad-

vantage of the condition of the people. I warn them not to permit high and usurious interest rates, contraction of the currency, or any change in the circulating medium that will affect the debt contracted until it has been discharged.

And what did we find following the Civil War? About eight years after that time the warning of Lincoln was disregarded. The great money powers of that time adopted somewhat the same course that has been adopted to-day. Currency was locked up and interest rates became usurious. But even that was at a period eight years following the war, and here we have drastic artificial deflation within 8 to 10 months after the great World War.

Was Lincoln's prediction fulfilled? Yes; property was swept from the ownership of people who had inherited it through generations. They could not hold it. Bankruptcy increased at such a rate as to become staggering, although not so great in number as is the case to-day, where failures amount to 10,000 more this year than last year—and they have hardly started. And there are sections of America to-day, that after a lapse of nearly 50 years, the people have not entirely overcome the awful curse that was then put upon them.

Gentlemen of the commission, I am here to tell you that if these conditions are not relieved, generation after generation to follow will be cursed by the losses now being suffered and yet to be suffered. There will be a curse stamped upon the race. As a result of the debt piling up, the children are to be denied education, and there will be a still greater increase in the number of men and women from the various agricultural sections that will have to be sent to asylums.

Senator Harrison, the asylum in my State is overcrowded, absolutely full. If you want to get a picture of the horrible conditions existing and fast growing worse all you need to do is to look at the asylum records or find out the number of persons being swept into sanatoriums and asylums. I should like to have a great specialist on mind diseases say to you, as he did to me: "If I could get the finances, I could return to the citizenship of America 60 men who are absolute wrecks because of their financial troubles." He tells me that they say constantly: "Doctor, I can not pay an inflated debt with a deflated dollar." Those men are able men. Some of them are financiers, but they are bankrupt in the matter of dollars and are fast approaching the point where they will be bankrupt in mind.

And, gentlemen of the commission, that condition is going to increase. Something must be done, yea, must be done to alleviate the troubles that confront us, that surround us. I am sure that I could not by any possibility paint a word picture that would properly describe conditions as they exist in many of the agricultural sections of this country.

And, gentlemen of the commission, will history reverse itself? Will not the conditions that existed 594 years before Christ be repeated to-day? Will the conditions that existed 94 years before Christ come again? Are they not, in fact, with us at this time, and steadily growing worse and worse?

It is useless to tell you that you can not find period after period where the world experienced inflation but was not followed by these conditions. And why? Because there was not produced drastic artificial deflation. Natural deflation can only come as the result of the operations of the law of supply and demand. And it must be

stretched over a considerable period in order to enable the natural application of the law of supply and demand to bring about orderly deflation.

Representative SUMNERS. Have you in mind any periods when there were great inflations, which were followed by what you call natural or orderly or gradual deflation, and when such calamities as you have indicated did not occur?

Mr. WANNAMAKER. Yes, sir. I think it was Bismarck who made the statement that he made war to bring prosperity to his people. He said, "To the victorious comes great prosperity." He said that frequently following inflation which comes as the result of war we have a lengthened period of inflated values and permanent improvement; and you will find that during his time that frequently happened. And aside from that—but I do not want to take up too much of your time—I am satisfied you can find period after period in history where deflation has come naturally and orderly following periods of inflation.

The five years of war created sociological and economic changes which probably would not have developed in 500 years of natural evolution—changes which will compel the acceptance of and adjustment to an elevated standard of values as a permanent inheritance. As nearly as can be stated our national debt has been increased from $1,028,564,000 in 1913 approximately to $24,062,510,000 in 1920. As nearly as can be stated the world's debts have increased from $43,106,495,000 in 1913 approximately to $300,000,000,000 in 1920, or over 600 per cent—while the great majority of the nations are still finding it necessary to increase their outstanding obligations to provide funds necessary to meet their budget requirements.

The effect of this added burden is expressed in taxation either direct or indirect, in the form of increased costs on all transactions which permeate and multiply and enter into the affairs of the world's entire population, increasing the cost of all production, distribution, and consumption and exacting its tithe at every turn from producer to consumer.

Taxation for interest charges on its debt alone has increased from $1,000,000,000 per annum to approximately $15,000,000,000, making no allowance for the requirements necessary to provide sinking funds to retire its obligations. America's interest debt having increased over 4,000 per cent; that of France over 1,000, and Germany over 8,000, with nearly all other countries equally inflicted.

This taxation must assert itself in its effect upon the entire world's economic situation; manifest itself in every branch of human endeavor, govern and regulate all conditions surrounding production.

As practically all taxation is based primarily upon and regulated by standards of value, the volume of revenue becomes dependent upon existing values; taxation derived under conditions of inflated values, yielding larger revenues than taxation derived under deflated values; assuming all other conditions are identical.

While our per capita debt is small as compared with most other countries, the inability of our debtors to meet their ordinary annual budget requirements appears to offer conclusive evidence that we must assume their debt to us with the obligatory taxation accompanying it. This increased our annual interest tax alone from $23,000,000 to approximately $1,100,000,000, or more than our total

national debt before the war, while all National, State, county, and city taxation of the present year is estimated at $15,000,000,000, or about $150 for each inhabitant.

Paradoxical as it may seem, deflated values mean increased costs of production; for deflated values mean reduced revenues, and reduced revenues mean increased taxation and increased taxation means added costs of production.

Neither America nor the balance of the world can incur a debt of such magnitude upon a basis of inflated values and liquidate it upon a basis of deflated values; an effort to do so would have the effect practically of increasing the debt proportionately. This vast increased financial burden would compel us to follow the history of its natural progression and adapt ourselves to the changed conditions. An attempt to disregard this and force prices back to prewar levels had already brought wreck and ruin to our agriculture and commerce and will cause our civilization to pay a fearful penalty, and the policy of artificial deflation started in America under the excuse that conditions in Japan and Cuba necessitated such action, has had a disastrous effect world wide. With our vast resources, which have merely been scratched, the conditions in Japan and Cuba offered no excuse for disregarding changes which compelled the acceptance of and adjustment to an elevated standard of values as a permanent inheritance. Any government that disregards this and attempts to force a return of prewar conditions would find it impossible to even collect taxes for interest on the vast indebtedness or to refund their indebtedness at maturity. A higher level of prices is an absolute necessity, for the purpose of meeting these burdens of taxation, war debts, and the changed conditions which absolutely compel an acceptance of and adjustment to an elevated standard of values as a permanent inheritance.

But I can not think that anybody would claim that natural deflation following a period of inflation such as we have had could come within 10 months. Orderly deflation could only come based upon the law of supply and demand which would have required a lapse of years.

Returning to the subject in hand, in 1918 I heard it rumored that a plan was being arranged to put on drastic artificial deflation. I heard it said that the American dollar was almost a bogus dollar; that the dollar should buy a bushel of wheat or 10 pounds of cotton if measured in its actual value.

When I first heard that statement I wondered if there was any probability of steps being taken following the World War, which has brought about the greatest inflation we have ever had or of which I can find any record; I wondered if any steps were going to be taken to produce drastic artificial deflation. I wondered if steps had actually been taken to put on drastic deflation. And I might answer the chairman's question right here. I did not want to have a repetition of the experience I had in 1873. I had the responsibility of the welfare of the people whom I had then and have now the honor to represent. I consulted with our national committee, which is composed of 75 of the leading bankers, merchants, business men, and farmers from the 14 cotton-growing States. I consulted with them as to the advisability of putting in effect for 1918 a drastic reduction

in cotton acreage. I took the position that if we planted the crop of 1918—and I think the members of this commission who are not from the South should keep this in mind—that central Europe, which largely consumes our low-grade cotton, had been engaged in war, and during the war President Wilson had issued an order that horse collars and a great deal of the material made for war purposes should be made from middling cotton when it could just as easily have been made from low grades—so we had in the matter of consumption even for war purposes very little low-grade cotton used, and there was much of this grade of cotton on hand. And we had learned a lesson in 1914——

The CHAIRMAN (interposing). Do you include linters in low-grade cotton?

Mr. WANNAMAKER. No, sir; linters are considered separately. You must remember that two-thirds of the American cotton crop is exported. While we grow 84 per cent of the cotton produced in the world of three-fourth inch staple and above, and have an absolute monopoly in that way, still, of our American crop 66 per cent goes into exports.

At the opening of the World War in 1914 the export cotton business was prostrated. We could not sell our cotton at all. When a man gets in great stress he will buy food before he will buy clothing, and cotton is only a seminecessity. Consequently we had been accumulating low-grade cotton from 1914 and could not sell it.

In 1918 the South was carrying cotton that it could not sell, and we gave serious consideration to the subject of reducing the cotton acreage, and cotton acreage was slightly reduced the next year without any effort. But after an investigation, and even taking the matter up abroad, we had every reason to believe there should be an increased acreage in cotton. Why? First, at the peace conference one matter of supreme concern was figured in this light: We are facing an absolute certainty of a cotton famine.

Now, gentlemen of the commission, do not get the idea that the war benefited us very much in regard to cotton. I will show you by statistics that if the war had not happened we would have had a market for every pound of cotton grown, based upon the consumption for the 10-year period prior to the World War.

But in 1918 we had this information: That at the peace conference, on the commodity side, composed of trade people from the cotton-consuming countries of the entire world, they having representatives there, the decision was unanimously reached that there was not sufficient raw cotton in the world to supply the then present demands. That was first-hand information. I got it myself from members who sat in the peace conference on the commodity side thereof. A proposition was really made in the peace conference to allot cotton. The question came up as to the price of it, how to establish that, and what would be a profiteering price on it. A delegate from one of the greatest cotton-consuming countries in the world said he was satisfied short staple cotton, basis middling, would go to a dollar a pound. This was the consensus of judgment of the representatives on the commodity side of the peace treaty of all of the leading cotton manufacturing countries.

As a result of this information, and knowing that the world was practically facing the certainty of a great shortage in good grades of

cotton, that there would be a pressing need for cotton—and statements were being sent out by the Department of Agriculture here in Washington urging increased production—we made no effort to reduce the cotton acreage.

In 1919 I heard positively that efforts were going to be made to put on drastic deflation again. A world's cotton conference, with representatives from every cotton-consuming country in the world, was going to meet in New Orleans. We held a conference in New Orleans in September. Prior to holding that conference I consulted with the wheat growers, I consulted with the representatives of various kinds of agriculture, and discussed with them the great danger we were facing in case drastic artificial deflation was put on. I felt that history would repeat itself, and that disaster would follow to agriculture. The manufacturer can close his doors if he sees a business storm approaching. The merchant can stop buying when the first cloud obscures good business. Almost any other line of industry can stop on short notice. But in the case of agriculture, once the farmer puts his seed in the ground God Almighty only can change the natural course of events. I favored putting on drastic reduction in acreage and production unless we were assured against artificial deflation.

About 3,000 men met in New Orleans in September, 1919. The matter of supreme importance to them was: "What shall we do in regard to planting cotton in 1920?" It takes practically 12 months to produce a cotton crop. And, gentlemen of the commission, I want to tell you that cotton is the most costly crop produced in America. Practically speaking, it is produced wholly by hand labor. In addition, it is the most hazardous crop. It may be wiped off the map by weather, pest, and in other ways. To-day it is being wiped off by the boll weevil; the boll weevil covers 77 per cent of this year's crop, and we will make the shortest crop that has been made for 25 years. We reduced the cotton acreage planted in America for the growing crop 28.4, as shown by the Government report, this being the greatest reduction ever made in the reduction of acreage on any American staple crop. The boll-weevil problem is now a national and an international problem. We are determined to reduce cotton acreage continuously to such an extent that the product will bring a price that will assure the producer of a profit, enabling him to slowly discharge the fearful losses forced upon him by artificial deflation. This reduction will extend over a period of years.

The question came up: What shall we do about planting next year's crop in event they put on this drastic artificial deflation? A memorial was prepared and sent to President Wilson, and I wrote him a letter pointing out what was of supreme concern to the producers of America if caught in a period of deflation.

The CHAIRMAN. If you have a copy of that memorial the commission would like to have it put in the record.

Mr. WANNAMAKER. All right. I will get it from my papers in a few moments. I will ask that the address which I delivered at this conference be placed in the record at this point of my testimony.

[From the Carolina Farmer and Stockman, Nov. 1, 1919.]

The Greatest Need of the World To-day.

[By J. Skottowe Wannamaker, president of the American Cotton Association, delivered at convention of association, New Orleans, La., Sept. 8, 1919.]

What is truth? Pontius Pilate was not the first and only man, nor will he be the last one to ask this question and turn away without awaiting the answer. We do not mean to attempt in this address to give a concrete answer to this question, but we believe it in place here to consider it as it affects the lives and the happiness of men and peoples.

Truth is not merely a wise deduction, comprehended in words to be quoted and admired; it is not an abstraction any more than is goodness or religion an abstraction to be only believed in and not actuated by. Truth is clearest and most comprehensible, living and effective, when reflected in noble living and just human relationships to man and God. Thus the wonderful parable of the Good Samaritan is the truth of true neighborliness and human brotherhood; that of the Prodigal Son is the truth of true fatherhood, while the memorable words of Christ on ministering contain the truth of genuine service and true greatness. These are all affirmations of the truth, of the truth made real. On the other hand, the accumulation of vast wealth by individuals for selfish purposes by unfair means and heartless combinations; the grinding down of the weak and helpless by the selfish strong and favored; the unfair combinations in restraint of trade and the unjust and unnatural interference in the free exchange of the products of the various nations in the way of the Creator by His disposition of natural blessings evidently intended should be; the manipulations of markets and products so as to deprive the producer of a fair and just return for his labor in order that he might live in reasonable happiness and comfort; the suffering and sorrow of thousands of individuals resulting from all of these things—these sins in our body politic are flaring denials of the truth that cries to heaven for correction and punishment. A state of society that supinely tolerates them is of that type described by Goldsmith in his famous lines:

> "Ill fares the land to hastening ills a prey
> Where wealth accumulates and men decay."

Truth enough we have had to save the world, and men enough who love the truth. The enormous task confronting good and patriotic men to make known this great body of truth and to devise means to cause it to prevail in human conduct and in the dealings of man with man and nations with nations. A brief survey of what we have passed through as it affects our problem will make this clear.

Only a short while ago the combined thought and energy, spiritual and physical, of the civilized world were centered on the soul-stirring as well as heart-breaking task of waging and winning great military battles in what for a lack of a definite name has been helplessly called the World War. Through suffering and sympathy with suffering, through opportunities to live and die heroically for what they recognized as noble causes, through the fond belief that victory would bring for all times a surcease of human suffering and the correction of all wrong, whole nations became reconsecrated to half-forgotten truths and once cherished ideals.

The war is now over in its acute form and has, at least, for the time being, brought victory of right over wrong in the great pitched conflict of these two elemental forces in human life and society. The drums and cannon have hushed, the dead have been buried, the bleeding wounds have been bandaged; but the tears of the broken hearted are still flowing to remind us of the fact that with the hush of cannon and the sheathing of sword and bayonet wars do not end. These tears should steel us in a sacred vow to do our utmost to promote among nations the development of natural safeguards against a reoccurrence of the unspeakable suffering and calamity of war and to make use of all honorable means to establish and maintain among the nations of the earth peace and good will.

This is not the work or task of statesmen in office alone, nor of the constituted governmental authorities alone. To put into effect in the lives of men the great lessons and truths written in blood and flame of war, to make comprehensible to the great mass of people everywhere the inevitable calamitous results of wrong and injustice, of selfishness and oppression, of the degradations of human beings in the philosophy of life adhered to by the controlling powers of a nation, and to make impossible the continuance or the return of such wrong in the world—to cause to flower in more beautiful and nobler civilization the sacrifices and the untimely death of millions who sleep under the poppies in Flanders Field or under rolling billows the oceans over, we must not wait on the great and mighty. Good men everywhere must consecrate themselves

in unselfish service of the good and noble, and must link themselves in mutual trust, in love of humanity, and in a firm belief in God's guiding providence in human affairs, and the ultimate coming of His Kingdom on earth, in order to labor effectively and unceasingly to make possible the coming of that "far off divine event to which all creation moves."

For wars do not settle once and for all times the conflicts of great elemental forces in human life and society. Evil after its defeat at once begins recollecting its weapons and remarshaling its forces for a renewed onslaught from a better point of vantage. The struggle, just as it is age-old, will be ceaseless; and unless good men everywhere unite in behalf of the good, the struggle will be hopeless. One day it takes place in the great open battle field; the next in the hearts and minds of men in their dealings with one another in the peaceful pursuit of happiness and wealth. Truly the price of liberty is eternal vigilance, the combined and sharpened vigilance of united, organized good men and women everywhere. Without them the sacrifices of crusaders in war would be in vain, from those who died before the walls of Jerusalem in order to regain for the Christain world the sacred city, down to those who, clad in khaki, now sleep in Belleau Wood. They perished that we might live, not merely exist, but live fuller, nobler, more divine lives in that freedom given only by knowing and having the truth as proclaimed on earth by the Son of God. Likewise the prophet, the thinker, the seer have always been with us and have cried truth to men from the street, the study, and the mountain top; but the spoken word, the written word, and the vision have been disregarded except by a few; and prophets and thinkers and seers have come and gone, only too often held in the memory of man by means of stone monuments erected late by way of penance by a heedless world. They offered us bread and we gave them stones.

Thus the lessons of history, truths proclaimed by the inspired, the ideals fought and died for by crusading youth ever since man learned to yearn for truth and justice—all these precious inheritances of the race are ever in danger of being possessed only externally, just as a man may possess a great book without knowing or valuing its contents. These ethical heritages from those who have gone before to those who come after, in order to bear fruit in the lives of men, must become potent and influential in their lives and acts, in their conduct toward one another, whether living far apart or close together. Now, to trust to the old way of letting this come about, hoping that by chance perhaps the new ideas and new conceptions of duty and greatness may drift into the hearts and minds of people while they are quickly settling down again to their old modes of life and ways of thinking should be absolutely out of the question. The world must not be robbed of the great spiritual values gained in the Great War. To this end concerted efforts of organized forces of good men for the common good must be made to realize in the lives of individuals and of nations the best that the world has hoped for, dreamed of, and longed for in the fiery furnace through which it has just gone.

And surely now, if ever, is the opportune time, not only to prevent the vanishing from the earth of our new visions of truth, but also to aid in the widespread of truth all over the earth in the hearts and minds of men in their lives and conduct. Now, probably more than ever before is the opinion of mankind in a flux; melted in the fearful crucible of the war, it has not yet rehardened in its mold and is therefore capable of being reshaped, and even reconstruction by the adding of the noble ingredients grasped in the late groping in the darkness is haply truth and right might be found. In this age, then, of great reconstruction and readjustment, of actual complete revolution of life's values as heretofore believed in, it is the unescapable duty as well as privilege of all patriotic and philanthropic citizens to face squarely the hard task of reshaping and remaking world conceptions of life, of human relationships, of international relationships, of human destiny. They must fearlessly and with invincible resolution recognize the false and the evil wherever they may be in our life, strip them root and branch, and implant in their place the love of right and justice.

Naturally no one body of men can accomplish all of this. Here is work for various organized bodies, but all of us must lend our support and cooperation. Only through organization of good men with their eyes to the future and keenly alive to the possible changes for good because of the recent struggle, can those far-reaching truths be disseminated widely by personal contact, and can sound ideals be implanted in the hearts and minds of men to bear fruit in noble human conduct. Any organization founded on prejudice and intended to promote only selfish and unjust advantage whether of individuals or sections is foredoomed to failure. On the other hand, the organization of unselfish men, banded together for the avowed purpose of stamping out intrenched evil that has long preyed on the life and happiness of a people, of doing away with ignorance, man's greatest enemy, of hastening prosperity and progress with a spiritual mastery of them, and for the further purpose of cooperating in every way in the great

cause of bringing to the whole world the sure blessings to result from the just reward of the labor of a great section, of freeing the intercourse of people one with another and making possible the free exchange of commodities in a most helpful way—such organization is attempting a great part of the task suggested above, and can not fail of performing great good. For it must not be forgotten that there is a most vital and unalterable relationship between the economic life of a people and its spiritual and human attitude. Justice has far more sides than merely the political one; and while political injustice may be to the American the most repugnant form of injustice, economic injustice, the depriving of a whole people of the just rewards of their labor through years and years, is certainly more far-reaching in its evil effects both materially and spiritually. It reacts in its inevitable results in untold detriment, and with time it prejudices and warps the very judgment of the people. To correct such evil existing far away from them men have been willing to die; to correct them close at home and thereby to restore the life of a great people back to its right channels is surely a no less inspiring task, which fortunately, may be taken up in peace and accomplished without suffering to anyone save Satan and his minions.

It is in this spirit and with this purpose that the American Cotton Association was conceived. It offers to good men the chance to combine with other good men in the effort to save in the life of the South the ennobling effect of the high resolve, the unselfish thinking, the magnifying of man over matter, of improving human conditions everywhere that were not so conspicuous in the war, and through a great group working together in harmony for the common good to make possible the abiding of these great convictions in the lives of Southern people and through them the rest of the world in its relations and dealings with the South.

But with such an organization with such work to do it would be absurd and fatal to success to ignore the practical and to overlook facts and figures.

While interested broadly in the welfare and happiness of the whole country, we are primarily and immediately concerned with the South and its problems, and to it we shall give our main attention. This favored section of the United States ought to have been the most prosperous part of our nation. It has a fertile soil that will produce any crop grown in America, in fact almost any crop grown anywhere in the world. It has vast natural resources, including water power and minerals; it has an unrivaled climate, with mild winters and summers and only occasional storms. It offers certainly opportunities of every kind inferior to none to be had elsewhere. It would seem then that the South should have become the garden spot of America, that it should contain a dense white population, and yet with these many natural advantages and the stirring record of the South in all phases of human endeavor in America before the introduction of cotton, the South is to-day cursed with illiteracy, bad roads, and poverty when it should be the leader in prosperity and enlightenment. That the South is poor, the poorest section of the United States, is evinced by the tax assessment of the Government, in the calls for the Liberty loans, for Red Cross, Y. M. C. A., and other national demands on the loyalty and ability of the people. The South was assessed the least. not because it was the least loyal, but because it had the least money. Why is this true?

In the practical monopoly in the production of cotton the South has long held in its hand the opportunity to become immensely wealthy. But the production of cotton in the South has brought wealth to every section of the globe where it is handled commercially except in the South; to the South it has brought poverty along with other mifortunes. It has blessed mankind wherever the sun shines except in the South; to the South it has proved a curse. For the production of cotton in the South brought negro slavery; the slaves were sold into physical bondage, and the South at the same time thereby became foredoomed to commercial bondage. It exchanged its birthright for a vile mess of pottage. It can not be questioned that had it not been for the production of cotton, the South would have been the country's greatest granary, its stock-raising center. Her vast mineral resources would have been developed and manufacturing on a great scale would have early been started and developed. Concretely put it may be declared that the production of cotton in the South is responsible for the following deplorable results: Negro slavery, that ultimately caused the war between the States, and after it only slave labor in practice if not in theory; the enslaving of the South to the promotion of cotton with cheap inefficient labor and unable financially to shift its economic life, since with meager return from the production of cotton the producers were unable to finance other commercial undertakings, or to grow other money crops. These starvation wages for labor forced on the South through unfair return for its cotton lingers still to-day and has brought in ts effect the illiteracy of the South, its impoverishment, its bad roads, the enforced withdrawal of the white population from rural communities where they are unable to support schools for their children and to find even meager comforts and recreation.

Even the negro slave is now unwilling to remain on the farm for with his new aspirations he is no longer satisfied with his uncomfortable surroundings. It is responsible for the child labor and the woman labor on the farms in the South, where they often labor from early morn till late evening performing manual labor beyond their power of endurance in tilling the soil and gathering the crop. It has often made it impossible for the producer of cotton to own sufficient cotton clothing made from his own product and manufactured with great profit by spinners who would sell it back to him at a cost beyond his reach. And added to this economic depression and mental backwardness the people of the South were forced through the production of cotton to become the defenders of slavery and are so until this day condemned by the thinking world. They become the victims of a vindictive peace and were long the sufferers of sectional prejudice even from their own national government. And the natural demand that cotton should be grown cheap and sold cheap has forced the South to appear in everlasting defense of its life product and in the fatal position of organizing within the country an ex parte government for its own protection. These things furnish the answer to the question why the South is poor and not rich.

In the light of what has been said above the following extract from a recent address by Mr. Richard H. Edmonds, editor of the Manufacturers Record, raises a question of national interest: Where has the enormous sums of money pouring into our country from the export of cotton gone?

"The vital relation of the South's cotton to the business life of America is shown in the simple statement that between 1880 and 1914, or 35 years, the total value of the foreign exports of raw cotton from this country was $10,843,114,637, or $2,282,887,437 more than the total of the world's gold production of $8,560,227,200 during the same period. In other words, if every ounce of gold mined on earth during that 35-year period had been poured into America, it would have fallen $2,282,887,437 short of paying America's bill against Europe and Asia for our raw cotton.

"During the 10-year period of 1905 to 1914, inclusive, the value of the export of raw and manufactured cotton and cotton seed and its products aggregated about $5,700,000,000 as a contribution to our foreign trade. From the discovery of America in 1492 to 1914, the total production of gold for the entire world was $15,690,000,000, while the total value of the South's cotton crops, including seed, for the 35-year period, 1880–1914, was $18,164,000,000, or about $2,500,000,000 more than the value of the world's gold production of 425 years, from 1492 to 1914.

"In the light of these facts, the cotton crop should be regarded not as a sectional product, but as a national product, without which our foreign trade could never have attained its enormous volume, and every man in America interested in the Nation's welfare should be enthusiastically interested in the whole cotton situation. Notwithstanding these facts the cotton producers have never since 1865 attained a fair measure of prosperity, and every effort to secure fairer prices for them has been vigorously assailed in financial and manufacturing circles of the East and of England."

Are these facts not enough to convince the cotton producers of the South and all other businesses of the South dependent on cotton that it is time to realize the fundamental causes that have always made cotton a low-priced crop in the past—the fundamental evil that must be corrected if cotton is to be a high-priced crop in the future?

One reason why cotton has been regarded as heretofore a cheap crop is because it has been made with cheap labor; it has brought a low price because the labor that produced it received a low wage. Again, it has brought a low price because it has been to a great extent a child-labor and a woman-labor crop; and because the labor which has produced it has lived to a great extent under "slum conditions." We have talked about the evil effects of child-labor in the cotton factories; and labor leaders in such industries are wise enough to see that child-labor reduces wages for all adult laborers; but we have not until now thought enough about the same wage-reducing effect of child labor in the cotton fields. And labor leaders and welfare workers have done much to do away with "sweated labor," poor housing conditions, crowded slums and tenements with their evil effects on city industrial workers; and almost nothing has been said until recently about "sweated labor" and the slum-like crowded cabins on Southern cotton farms with their consequent evil effects on Southern agricultural workers.

We shall henceforth be unable, and even if we are able, we would refuse to grow an oversupply of cotton with cheap labor in order to buy products of farmers who pay higher wages for efficient labor, and which we can grow for ourselves. That cotton must be henceforth a "surplus crop" after the farm has been made "to feed itself" is an old doctrine, but it must be put into practice if we are ever able to get high-priced raw cotton.

Intelligent farmers know that in those lines of farming with cheap, inefficient, ignorant labor—as in our "one-crop farming"—there is no profit. It is only when the farmer understands that brains and skilled intelligence must be brought into play, that profits are increased—as for example, in diversified farming and stock-raising, and that the price of cotton will be missed.

We must bring about a higher wage scale in the rural South that will attract and hold a more efficient grade of labor than low wages will ever hold or command. And we must, if need be, "go on strike" against raising full crops of cotton until the world is willing to give for cotton enough to enable us to pay this higher wage scale.

For the South realizes that its future is at stake, and that there is no law, either human or divine, that requires the producer to raise cotton and sell it below the cost of production, or to sell it merely for a pittance by which to eke out an existence. Most assuredly there is no power, either legal or of public opinion (Gov. Allen to the contrary), that can force the Southern producer to raise great cotton crops longer under the conditions that have obtained for the last 60 years. Let the cotton producers once clearly realize that they possess a natural monopoly and that by united harmonious trustful cooperation they can alter these conditions, and they would not last another year. The manufacturer, both domestic and foreign, already realize this power of the cotton-producing South, and understand that it is to their interest that the producer shall receive a just profit on his cotton. But the manufacturer should go further and cooperate with the producer in every possible way to remove the unnecessary parasites in the handling of cotton who have long prospered and profiteered on the miseries of the producer; he should moreover perform his utmost, in self-interest as well as in the interest of the producer, to bring about the necessary reforms in the handling of cotton, in stabilizing its price, in destroying manipulators and making their further work impossible, in allowing the law of supply and demand to operate, in destroying combines formed to destroy competition and drive down prices. He should clearly understand that the cotton industry which brings tremendous profits to all its divisions except the producer links manufacturer and producer in mutual interests with each largely dependent upon the other, and he should work willingly and freely to improve the present condition of the producer. Should the present conditions continue there will be but one course open to the producer and that is so to curtail his cotton acreage as to produce so small a crop that it can not be manipulated and forced on the market at a criminally low price. With present conditions unchanged thousands of farmers could actually buy cotton which they ordinarily make, for future delivery cheaper than it actually costs them to make it, since the selling price based on all factors that enter into the cost of production is below the actual cost of production. Should the producer be forced to adopt this course the manufacturer will suffer stupendous losses, and will have to answer for the terrible sufferings brought to the consumer. The producer is now determined that he will no longer suffer in order that the manipulator may accumulate vast fortunes and that every line of the cotton industry may profit except the produer.

The high cost of living has attracted world-wide attention. It is both a national and an international problem. The profiteering of the manipulators of the food products of the world threatens to overthrow our very civilization. These criminals have reversed the law of supply and demand and hoarded the necessaries of life for the purpose of profiteering on the miseries. In no section of America has the high cost of living worked greater hardship than in the South. Cotton, which is the money crop of the South, regardless of the law of supply and demand is not permitted to move upon an open market. During the four years of war the manufacturer has accumulated stupendous profits from cotton. To-day the manufactured product is being sold at a price that would clearly justify a far higher price than is being paid for the raw material. And yet the producer is forced to buy his food products and his clothing made from his own cotton at a price far in excess of the price paid for the raw material, out of which he must get his means to live. Furthermore, the South is buying to-day the necessaries of life at prices far above those justified even by the enormous inflation in the currency, while at the same time she is selling her cotton below the price justified by this huge inflation and the law of supply and demand. On this subject the figures given below that were secured from the most reliable sources in America will no doubt be of interest.

Amount of currency in circulation in principal countries of the world before the war	$8,000,000,000
Amount of currency in circulation in principal countries of the world to-day	49,000,000,000
Population of world (estimated) now	1,800,000,000
Bonds issued by principal countries of the world in 1913	40,000,000,000
Bonds issued by principal countries of the world during the war	180,000,000,000
Total of bonds in force in principal countries of the world to-day	220,000,000,000

Interest on national debt of principal countries of world before the war	$2,000,000,000
Interest on national debt of principal countries of world to-day	10,000,000,000
Taxes, principal countries of world before the war	12,500,000,000
Taxes, principal countries of world to-day	50,000,000,000
Bank deposits, principal countries of world before the war	25,000,000,000
Bank deposits, principal countries of world to-day	75,000,000,000

Some months ago with a knowledge of the great inflation of money and credit in sight an authority on economic conditions wrote of the pending situation as follows:

"After the signing of the peace treaty, when the world turns its attention to commerce, and every Government in the world is planning to use every means possible to induce the people to become as intensely busy as possible, for the purpose of furnishing them with means to earn a livelihood for stopping their unrest, for furnishing them with revenue to pay Government taxes, which will enable the Governments to begin paying for their enormous war debts, it is then that the prices of commodities will soar. It will be impossible for America not to become intensely wealthy. One of the great dangers will be excess in wealth. Many commodities are far below a fair price based on inflation and demand. Cotton will in all probability show a greater rise in price as a result of inflation and actual demand in excess of supply than almost any other commodity."

But cotton not only did not bring anything like a fair price during the war but is by no means bringing it now. One of the leading officials of the National Spinners' Association in a public address stated that the manufacturers could have paid 30 cents per pound, basis middling, for every pound of cotton since 1914 and still have made a fair profit. A leading official of the manufacturers association, one of the most reliable and high-toned gentlemen in America, stated that the mills could have paid 75 cents per pound, basis middling, for cotton during the early fall of 1918. Inquiries sent recently to a number of the leading manufacturers in various sections of the country, requesting that they state at what price cotton could be used, basis middling, and still show a fair profit, brought replies to the effect that mills can use cotton as high as 65 cents per pound, based on the present price offered for the manufactured product and still make a fair profit.

It is known that great fortunes have been piled up in all of the industries of the world except that of farming in the South; but when the farmer in self defense comes to the point of not having to make a mortgage in order to get money he is called a profiteer and has to be hit.

The conditions in the South brought about by the causes mentioned above can no longer be tolerated. With the removing of the causes the conditions will inevitably change for the better. To remove these causes the American Cotton Association has been organized, It provides the means and shows the way to accomplish the great task; so for the first time in the effort of the South to improve its conditions the association embraces in its membership southern farmers, merchants, bankers, business and professional men and with its projected membership of 1,000,000 men from these divisions of southern economic life it will bring the South into its own. These citizens constitute the most useful members of a Commonwealth. It is they who knit mankind together in the mutual benefits of good offices, of the distribution of the gifts of nature, who find work for the poor and who bring wealth to the diligent.

This great organization will bring an altogether nonpartisan, nonpolitical commercial association working for the good of the entire South; it will be strongly democratic in form, with representatives and officials in every school district, every township, every county in every State in the entire cotton belt. It will revolutionize every phase of economic life in the South. It has already accomplished great good. Through its work the South is far better understood to-day than at any time within the last 60 years. A world-wide campaign of publicity in behalf of the South has been estimated that through its influence more than $500,000,000 has already been saved to the South.

The American Cotton Association will be run on a scientific business method. It will keep representatives in every cotton consuming country of the world, will issue regular reports on supply and demand and semimonthly crop condition reports, probably the most accurate ever furnished. It will publish an official paper edited by men thoroughly familiar with the cotton industry and various allied industries, which will be distributed free to all of its members. It will arrive at a minimum price for cotton based upon the cost of production, and the price of all factors entering into the cost of production and also on the price of the manufactured product after deducting the cost of manufacturing and making allowance for a fair rpofit to the manufacturer and on the price of other commodities; and will recommend such minimum price at regular intervals to its members. Under the thorough organization and

direction of the association this minimum price will be the minimum price at which cotton will be sold in the South. The acreage to be planted, based upon supply and demand, will also be recommended by the association, in order that only such acreage shall be planted as will supply the needs of the world at a reasonably profitable price to the producer, and not to furnish surpluses of cotton which have been heretofore used to beat down prices. Other land will be planted in food and feed crops. Crops will be rotated and special efforts will be made for the encouragement of the planting of other crops. Soils will be improved; scientific attention will be given to seed improvement. The erection of warehouses in every county or parish in the cotton belt, sufficient to warehouse the cotton grown therein will be strongly urged and encouraged. These warehouses will be owned and controlled locally and operated under the State or Federal warehouse act. Special efforts will be put forth to change the methods of handling cotton which has brought enormous loss to the South for the last 60 years. Cotton will be sold subject to acceptance at the point of origin. Improved ginning and baling methods will be encouraged, and an effort will be made to secure carload rates from the railroads for the transportation of cotton. Changes will be made in the present plans of financing cotton, such as the formation of trade acceptances corporations and foreign export corporations, so that the South may be in a position to market its crop direct to the manufacturer both here at home and abroad. As Governor Harding of the Federal Reserve Board has well said:

"We have for years been accustomed to financing the growing crop and of recent years we have learned how to hold our crop of cotton after it has been ginned and baled, over a temporary period of distress. We must go one step further and finance it until it gets into the hands of the spinner."

Through the cooperation of southern bankers and business men the establishment of such trade acceptance corporations is being brought about; and in many counties of the cotton belt a system of warehouses as that suggested above is already being organized.

The American Cotton Association, through friends in Congress, is now pushing a law to require the publication by the Department of Agriculture of acreage abandonment in advance of the marketing of the crop; this will be eminently fair to both the producer and the consumer, for the acreage abandonment is a vital factor in determining the supply of cotton. It is also using its influence to secure a Federal law requiring the Department of Agriculture to publish at regular intervals the cost of manufacturing a pound of raw cotton into the finished product, and another law which will bring about a complete change in the publication of information concerning surpluses, so that the information will be acceptable. It is also advocating a law throughout the South designated "warehouses of delivery," in order that the buyer of contracts on the New York Cotton Exchange can demand delivery at southern warehouses.

The great need of the world to-day is cooperation, that is, working together, which implies friendship, brotherhood, mutual confidence, joint endeavor, mutual sympathy and support. The organization of the American Cotton Association will bring this to pass for the good of the South with its accompanying blessings. Our campaign is not for to-day alone; it is for the future also. Unborn generations will receive the blessings of the success of our work. It means a complete new South. It means that not only the cotton industry but all the various allied industries, in fact every form of economic life in the South will be vastly benefited. The conditions which have chained the South in commercial slavery, prevented its progress and prosperity and brought suffering to millions for the last 60 years will be removed. Opportunity knocks at our very door. Opportunities were never so great and so numerous as they are in the South to-day. The clarion call of duty, truth, and freedom is ringing throughout our southland. The door will be opened and the call will be answered by the sons of freedom; and this generation and coming generations will enter into a heritage which will make their fathers' lives look poverty stricken in comparsion.

We may dream our dreams and see our visions, but we are not mere dreamers or visionaries. We propose no impracticable scheme of air castles; we mean to build on the firm foundation of economic reality in our section of the land a new order of things which is altogether possible and proper. In our work, however, we mean at all times to strive to be led, guided, and actuated by the truth as we have defined it above.

As a result of the situation we also appointed committees to come to Washington and study the situation. We decided that it would probably be dangerous for us to take part in the World's Cotton Conference, because it would likely attempt to lay before the producers

of America the necessity for a great increase in production, which might result in an enormous increase in acreage planted, and that if we took part in the proceedings it would mean we were indorsing their action; that we would be, in effect, sitting over a can of powder.

We held an executive session and the matter was thoroughly considered. The proceedings were taken down by a stenographer. I asked them to refuse to take part in the world's conference, except upon this condition: That I would attend the World's Cotton Conference and deliver an address upon the necessity—the necessity, now mind you—of cotton bringing a profitable price to the producer. In other words, if he could not be assured that he would get a profit for his cotton when produced, there would be decreased production.

Second. That I would have a committee on supply, distribution, and prices.

I attended the World's Cotton Conference——

The CHAIRMAN (interposing). Where was that held?

Mr. WANNAMAKER. In New Orleans.

The CHAIRMAN. When was it held?

Mr. WANNAMAKER. In October, 1919. I attended the World's Cotton Conference. I discussed conditions with men representing financial interests, representing practically all lines of industry; the proposition that was giving very serious concern to our association, and, I might add, to every man in America. I made an address on "The necessity for paying the producer a profitable price for cotton." I do not want to burden your record, but I will be very glad if the commission will permit this address to go in as a part of my testimony, because it covers the subject quite fully.

(The address referred to and afterward furnished by the witness is here printed in full in the record, as follows:)

[Address of J. S. Wannamaker, President American Cotton Association, before World Cotton Conference, New Orleans, La., Oct. 13, 1919.]

THE NECESSITY OF PAYING THE PRODUCER A PROFITABLE PRICE FOR HIS COTTON.

The curtain of civilization—so far as our knowledge runs—lifts on the shifting scenes of industries promoted by tyrant kings and carried out by hordes of slaves.

Business, as we understand the term to-day—and so far as records run—had its beginning somewhere along the coast of Phoenicia, which was a little strip of land about 150 miles long and about 50 miles wide.

The comparatively few people who lived and worked along this little strip of land controlled the industrial markets and the marine business of the entire civilized world. This, perhaps, is the most magnificent and the most extraordinary illustration of the influence of business in building a nation that the world has ever seen.

The truth that stands out against this background of facts is, that the most influential and most important nations of the world to-day, and during all the days that have ever been, are the nations that are actively engaged in commerce and business; that it may be held that the hope of commercial gain has done nearly as much for the cause of truth as even the love of truth, so that commerce links all mankind in one common brotherhood of mutual dependence and interests.

Commerce tends to wear off those prejudices which maintain distinction and animosity between nations. It softens and polishes the manners of men. It unites them by one of the strongest of all ties—the desire of supplying their mutual wants. It disposes them to peace by establishing in every State an order of citizens bound by their interest to be guardians of public tranquility.

Following this, the greatest of all wars, the curtain of civilization will lift upon a period of the greatest commercial activity ever known in the world. This is absolutely necessary to furnish the people of the world with employment—"nature's physician"—which is absolutely essential to human happiness. We realize as never before that indolence is justly considered as the mother of misery and discontent.

Then, too, the nations of the earth must become intensely busy for the purpose of paying war debts. The war has taught us many lessons—among them it would seem that we have disregarded the intention of nature concerning commerce.

Nature seems to have taken a particular care to disseminate her blessings among the different regions of the world, with an eye to their mutual intercourse and traffic among mankind, that the nations of the several parts of the globe might have a kind of dependence upon one another and be united together by their common interest.

Civilation itself is on trial to-day. The greatest war of all history, the World War, is followed by the greatest reconstruction period ever known to man. It is no ordinary problem which confronts us. It has nothing to do with accommodating to a gradually changing social and industrial status. It does not contemplate mere modification of old industrial forms to changed conditions. It has no concern with amendments to existing conditions. Every Government in the world should meet these conditions by a complete change designed to better the conditions of mankind as a whole. This can only be done by affording opportunity for work, by putting into operation unrestricted commerce, so that the people of the world can be clothed and fed. Once civilization through the Governments of the world puts into operation a concentrated and united effort along these lines, one of the great causes of discontent and war will be removed. As long as there is restraint of trade these conditions will continue, and the alternative to-day is industrial reform or ruin. If we refuse the one, the other shall surely compel us. We are to-day reaping every seed that has been sown.

"In language so clear that the unlearned and the young can understand, the Savior, in the parable of the wheat and the tares, shows that all along the journey of life mankind are sowing seed of some kind, which, at the end of the life, is going to produce a harvest, the sure outcome of the kind of seed sown. Nature is inflexible in certain results, founded and fixed by the great Creator of nature and her laws. What the farmer sows he will be sure to reap. Never yet since the world began have men gathered grapes from a bush of thorn, or figs from a tuft of thistles."

The most important issue that faces the cotton world to-day, and one of the most important issues facing the entire commercial world, is the immediate need of a marked and permanent increase in the output of American cotton. The World Cotton Conference will certainly have to face this issue. If it does not, its work will mean but little, as the immediate and permanent increase in the output of American cotton is supreme above every other interest that now concerns the cotton world. This increase can only be accomplished by cooperation between the manufacturer and the producer, by a complete change in the many antiquated methods of the handling of cotton, and by a great increase in the price paid to the producer for his cotton.

There is no product which will be more affected by the World War, by the conditions growing out of it, than cotton. It is computed that nine-tenths of the clothing of the inhabited world is made of cotton, and that out of the world's population of 1,800,000,000 only 500,000,000 are completely clothed, 750,000,000 are only partially clothed, and 550,000,000 are without clothing of any description. To provide clothing for the human race, it is calculated that 50,000,000 bales of cotton, or 15½ pounds for every human being, will be required each year. The world's consumption of cotton to-day is approximately 23,000,000 bales, and of this during the last decade the American crop averaged about 13,000,000 bales. It is predicted that there will be an enormously increased demand for cotton as a result of changes growing out of the war; that in a few years' time the world's spinning trade will require annually above 30,000,000 bales of cotton.

We are entering upon a period of intense activity. Factories are being erected and spindles added for the purpose of meeting the additional demand for cotton goods. The world is hungry for cotton. The supply of cotton goods has been steadily wearing out for five years, and now the world must be reclothed just as it must be fed in its famished condition. The cotton manufacturers have enjoyed a period of intense prosperity; cotton mill stocks are in demand at enormous premiums. One of the leading cotton manufacturers of America recently stated:

"It would be a matter of almost human impossibility to supply the wants of the world for manufactured cotton goods for the next 25 years, even provided the raw material can be secured, except by a tremendous increase in the creation of new factories and the adding of spindles. However, even with these, it will be extremely hard to supply the pressing wants of the world."

The increase in the world's population and the increased use of cotton in other products indicates that normal conditions, once restored, must be maintained by an annual increase, if the world's economic life is to be kept on a sound basis. The growing cotton crop will be the shortest in the last decade. This added to the surplus of spinnable cotton brought over from last year will fail to supply the world's demands.

Before cotton can be secured from the 1920 crop we will face an absolute exhaustion f raw cotton. In addition to this, we must have the largest crop next year ever roduced to fill pressing demands and prevent suffering on the part of the consumers f cotton goods. A small crop would mean idle spindles and great loss to the manu-ıcturer.

It is obvious that production must be increased in all lines, but especially in otton. To increase the American output, the work in the production of cotton must e made more attractive to the laborer than work in the production of any other roduct. This means in the last analysis that the consumer must finally pay a price 'ell above any recorded since the war began. The producer realizes his patriotic uty to produce and is anxious and ready to perform his every duty, but he will no ›nger produce except at a profitable price. He is anxious to cooperate with the ıanufacturer and feels that their interests should be mutual, that much of his trouble nd adversity to-day is chargeable to the army that stands between him and the ıanufacturer, claiming an enormous toll from his product. The price the producer rill demand will be, in my judgment, at least 50 cents per pound, basis middling, r more. A price less than this would render other crops more profitable and would ıean the certainty of another small crop.

This opinion is based upon the estimated cost of production for the growing of cotton, he price of other crops that can be produced on the same lands, and the marked hange in labor conditions. Anything that threatens to interfere with a marked ncrease in the supply of American cotton under existing conditions is positively a ıenace to the welfare of the human race. The old day of low-price labor and low-ost cotton has gone forever. The old economic claims of the all-cotton system have een broken and gone to the scrap heap, never again to be forged.

It is said that necessity is the mother of invention. As a matter of patriotism first, nd next as a matter of necessity, the cotton producer planted largely his lands during he war in food and feed crops. The result has been startling. The doctrine that as been preached to the producer for the last 60 years has been put into practice. The possibilities of the soils of the South and the necessity of diversified farming have een startlingly illustrated. The famous words of Henry W. Grady, that brilliant outherner, who was one of the first great exponents of the New South, uttered some 0 years ago, have at last borne fruit:

"No one crop will make a people prosperous. If cotton holds a monopoly under conditions that make other crops impossible, or under conditions that make other crops exceptional, its dominion will be despotism. Whenever the greed for a money crop unbalances the wisdom of husbandry, the money crop is a curse. When it stimulates the general economy of the farm it is the profit of the farm. The soil that produces cotton invites the grains and the grasses, the orchard and the vine. Clover, corn, cotton, wheat, and barley thrive in the same inclosure; the peach, the apple, the apricot, and the Siberian crab in the same orchard. Herds and flocks graze 10 months every year in the meadows over which the winter is but a passing breath and in which spring and autumn meet in summer's heart. Sugar cane and oats, rice and potatoes, all come together under our skies. To raise cotton and send its princely revenues to the West for supplies and to the East for usury would be a misfortune if soil and climate forced such a course. When both invite independence, to remain in slavery is a crime. To mortgage our farms for the money with which to buy meat and bread from western cribs and smokehouses is folly unspeakable."

Now, the South has made great strides in the past 10 years because she has seen a great light. The acreage and production of corn, oats, wheat, peanuts, velvet beans, hay, sweet potatoes, and Irish potatoes, and the production of home gardens have all increased very wonderfully in the past decade. The number of hogs in Florida has increased 86 per cent since 1910, in Mississippi 76 per cent, in Alabama 75 per cent, and in Georgia 70 per cent. The number of beef cattle in Alabama has increased 50 per cent. The increase in dairy cows in Mississippi the last 10 years is 41,000, in Louisiana 33,000. These few figures are given as slight examples of the progress made toward a safer and better balanced agriculture. The boll weevil which threatened to devastate the cotton fields of the South has proven almost a blessing in disguise, and hence she is fact building the fortifications to defend herself against the boll weevil, the pink bollworm, the leaf worm, the root knot, and the wilt, the war, the shortage of labor, and all these other things, by producing corn and hogs, poultry and eggs, gardens, small grain, cattle, milk, and many other things.

Throughout the length and breadth of the entire South, into the remotest rural districts, to-day the cost of the false economic conditions under which the southern cotton producer has been laboring is understood as never before. He realizes that cotton growing is sectional. Its use, like sunlight, reaches the farthest clime. The

world demands it, and, like sunlight, the world demands it cheap. Cotton, fabulous in its beneficences, is a curse only to the section which produces it. Cotton brought the slaves from the East to the South at a price that was productive of internecine strife and of civil war. Cotton made the South the defenders of slavery, the derelicts of agriculture, the victims of a vindictive peace, and consigned them to a sectional prejudice in the country's government. The unnatural demand that cotton should be grown cheap, and sold cheap placed the South in everlasting defense of its life product, and in the fatal position of organizing within the Government an ex parte government for its own protection. All of these things have made the South poor, not rich. That the South is poor, the poorest section of the United States, is evidenced by the tax assessments of the Government, in the calls for the Liberty loans, Y. M. C. A., Red Cross, and other Government demands on the loyalty and ability of the people. The South was assessed the least, not because they were the least loyal, but because they had the least money. The section which has made the most out of cotton, more out of it than the growers, New England, was assessed more, not because they were more loyal, but because they had more property.

Concerning the poverty of the South, bank deposits might be considered as another index of wealth and prosperity in other sections. By examination of the report of the Comptroller of the Currency issued in June, 1918, from all State and national banks, we find that the individual deposits in the banks of the 11 cotton States amounted to $2,211,403,000. If the individual deposits in the banks in the States of Minnesota, Iowa, South Dakota, Nebraska, and Kansas are taken, we find they amount to $2,246,896,000; in other words, the bank deposits of 5 States in the Northern wheat, corn, and pork producing section equal the entire bank deposits of the 11 cotton States. In no case do the bank deposits of any cotton State, except Texas alone, equal the bank deposits of Kansas, Nebraska, Iowa, Minnesota, Wisconsin, Michigan, Illinois, Indiana, or Ohio in June, 1918. The bank deposits of Ohio and Illinois on that date were more than the bank deposits of the 11 cotton States. It probably is not fair to take the bank deposits in national banks alone, but we have later figures for these showing that on March 4, 1919, after the cotton crop of the last year was marketed and sold to a considerable degree, the national bank deposits of the 11 cotton States did not equal the national bank deposits of six Northern States, including Michigan, Wisconsin, Minnesota, Iowa, Nebraska and Kansas; and here again in no case do the national bank deposits of March 4, 1919, of any cotton State, except Texas and Oklahoma, equal the bank deposits of Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Nebraska, or Kansas.

The production of cotton brought the fearful reconstruction period to the South. The conditions in Europe to-day are not, as a whole, as desperate by any manner of means as were the conditions in the South at the close of the Civil War. The South had fought four years against overwhelming odds. Every bond and every dollar issued in the payment of war expenses were, by the terms of readmission to the Union, repudiated. The loss of the South in men and in money was in proportion to population and wealth equally as great as the loss in Europe. The South had 14 years to endure a condition in many respects surpassing that from which Europe is suffering. But the South rallied. It never cringed, and it never whined.

The price of cotton was based upon slave labor; starvation wages. The agricultural labor of the South is in the process of a readjustment. What does this new alignment mean and to what extent and how will it affect the price of farm products? The answer to these most important questions is revealed in the increasing items of comfort which the alignment is adding to the living conditions of the laborer. A careful figuring of the rations indicates that the cost of living on account of this increase in comfort will be increased eight times more than it was, say 25 years ago. On some items the ratio really figures much higher than this average.

Let us take as illustration the items of food, clothing, and housing. The laborer is not only demanding a decided improvement in the quality of these necessities, but a very decided increase in the quantity also. For instance: A family of four—man, wife, and two children—under the old régime were issued four pounds of meat a week, mostly for the use of the man. It cost about 32 cents. Now they are demanding sufficient for all the family—10 pounds. It costs about $3.50. Such a family in that era got two pairs of brogan shoes a year. They cost about $1.50 per pair—total $3. Now they want two pairs brogans, two pairs for Sunday wear, two pairs for the children—six pairs in all. They will cost around $28. As to clothing, the man got one woolen suit about every two years in the old days. It cost around $8, or an average of $4 each year. Now he wants at least one suit every year, costing about $25, with the probability of it averaging more. The same ratio applies to the clothing for the wife and children. Such a family, under the old conditions, lived in a one-room log cabin, built without brick, glass windows, screens or ceiling—it cost approximately $50. They are demanding now a house with several rooms, brick chimneys,

lass windows, screened, and ceiled throughout. Such a house will cost now about 600.

Cotton production in the South has forced the employment of women and children the cotton fields, regardless of hours and age. By the last census, 84.94 per cent of l women engaged in agriculture were located in the 11 cotton States. Where Iowa ly had a little over 9,000 women scheduled as engaged in agriculture by the last nsus, Texas had 184,000, and Mississippi, Alabama, and Georgia more than 200,000 ch. The tenant's wife and the Negro tenant's wife and daughter work in the field ing the hoeing, the chopping, and the picking. We know that the world wants eap cotton to clothe its nakedness, but may God forgive the man who wants it at price of women's labor and children's labor in the cotton fields. Those of us o have loved the South because of its possibilities, who have realized the wrongs its past history, and who have devoted long days, months, and years of hard work help solve its difficult and intricate problems in order that it might be a stronger, r, and better agricultural part of this great Nation, have dreamed of a change of nomic conditions which would put the southern farm woman on a better basis in relation to production and the farm home.

s a result of cotton production in the South the producer has been forced to become ommercial cannibal, this being absolutely necessary to enable him to exist; he royed his forestry; fleeced his soils of their fertility; existed on his natural assets, ying to himself and his family reasonable hours of work, proper working condi- s, a decent home, and the opportunity to play and learn. Existence upon the e paid for cotton by the manipulator for the last 60 years has brought conditions e rural sections of the South that have failed to attract any immigration to the on-growing section; have driven the white man to other employments, and are n driving the Negro to-day into other fields of work.

ad it not been for the production of cotton in the South, the South would have the great granary and stock-raising center of America; would have had great ries and also large mining centers; and would have had a dense white population. d it not been for the planting of cotton in the South and the false economic con- ns resulting therefrom this would have been the richest and most populous part merica. It would have been the center of the Nation's industrial activities; the er of diversified farming, and it would surpass in wealth both the Eastern and tral Western States. We had the soil, and we still have the climate and the natural rces. We wasted much of our soil by the one-crop system without rotation. We e natural advantages surpassing those of any other equal area in the world. We e yielded up the most priceless heritage of natural advantages ever given to any ple on earth through our slavery to the one crop, cotton, this being due to the fact the price has been absolutely set and dominated by the buyers and the producer never been allowed a voice therein.

he growing cotton crop is the most costly ever grown in the South. Never again we see cheap labor. Owing to a wholly erroneous estimate by the public, cotton always occupied a false position in the economic life of the South. This has been to the habit, inherited from the régime of slavery, of not charging the crop up the expense involved in its production in keeping with what sound business e demands. In the South cattle, sheep, hogs, corn, oats, potatoes, and other ucts, representing millions of dollars in value, have been, and continue to be, umed each year on the farms upon which they are grown. Where half of the area vated is in cotton, the consumption of fully 75 per cent of these products is made ssary by the cultivation and harvesting of the cotton crop, that being about the e of labor which cotton requires. In other words, if it had not been for the cotton , 75 per cent of these products consumed could have been sold for cash and would e become a liquid asset of the farmer. The fact that machinery can be used in both cultivation and harvesting of most of these other products accounts very largely this excess against cotton. But cotton is a hand-made product. Until very recent s not a dollar's worth of these products were ever charged up to cotton, or was ously regarded as a part of the expense in its production. Thousands of women children, white as well as black, have worked in the cotton fields, the major part hem under the most wretched conditions of poverty, yet for the better part of a century their labor was not ever considered as an item of expense in growing on.

ndeed, there are still to be found some people who figure that cotton can be grown low cost, frankly basing their estimates on this slavery of women and children as a p form of labor. This habit, inherited from slavery days, of giving cotton the efit of free labor, and free food, finally became crystallized into the conventional w, which has been for years more or less authoritative and has to a considerable gree intimidated the free expression of opinion regarding the cost of production.

The fact is, a strict accounting so raised the cost of production, as compared with th views based upon the slipshod methods of the past—the real basis for the conventiona view, that students from a fear of criticism were for a long time actually reluctant t announce the result of their calculations, although their findings were clearly justifie by the rules of sound bookkeeping, and also by recognized facts as to the value o the products consumed in production. The following figures are based upon a 20-acr cotton farm, per estimate of W. W. Morrison, one of the leading experts on the cost o production in this country:

Estimated cost of cotton crop, 1919.

Rent, 20 acres land, $7.50 per acre	$150.0
Rent one plow animal	65.0
Feed of plow animal	279.0
Ginning 9,600 pounds seed cotton, at 30 cents per 100 pounds	29.8
Transportation farm products and supplies	30.0
Deterioration of farm implements	20.0
Labor, 1 man, 1 year, at $75 per month	900.0
Extra labor, hoeing over crop 3 times, 75 days, $2.50 per day	187.5
Picking 9,600 pounds seed cotton, $1.50 per 100	144.0
Gross expense	1,804.3
Less 3½ tons seed, at $90 per ton	288.0
Net total	1,516.3

20 acres; 160 pounds per acre; 3,200 pounds lint; net expense, $1,516.30; cos 47, 47⅜ cents per pound.

The current prices on which this statement is based can be too easily ascertained t make any discussion of the items in detail necessary. It may, however, facilitate i vestigation to state that the scientific feed for one plow animal for one year is 53 bushe of corn, 53 bushels of oats, and 3 tons of hay. This costs the consumer for corn, $2 p bushel; oats, $1 per bushel; hay, $60 per ton for number one timothy. The estima is based on country hay at $40 per ton. Labor is also based on a wage of $75 per mont or $2.50 per day. Much evidence in the hands of the writer indicates that it m average $3 per day for the year. The evidence also indicates that picking may avera $2 instead of $1.50 for the season. No charge for fertilizer is included in the abov

The following estimate as to the cost of production is taken from the South Atlant States, where commercial fertilizer is used:

(In a large number of the South Atlantic States German potash is indispendab for the production of cotton. The nonuse of this potash for the last four years h proved very injurious to the soil and it will require years to rebuild the vitality of t soil so as to produce a normal yield of cotton.)

Cost of cotton production illustrated on a 1-horse farm of 27 acres:

Fertilizer:	
6¾ tons fertilizer 8–3–2, at $58	$391.
1 ton nitrate soda	90.
Labor:	
One plow hand, 12 months, at $40	$480.0
Hoe labor, 18 acres, at $2.25	40.
Extra labor, gathering corn, hay, etc	50.0
Picking 10 bales cotton, at $1.20 per hundred	120.0
18 bushels planting seed, at $2	36.0
10 per cent depreciation on $600 equipment	60.0
Incidental expenses	30.0
Ginning, bagging, and ties, 10 bales	50.0
Total	1,348.0
Income:	
7 bales, 400 pounds each, at 30 cents	840.0
240 bushels cotton seed, at $1	240 0
	1,080.0
Net loss	268.0

Even basing the cotton at 50 cents a pound, income from this cotton would be $1,400 instead of $840, at 30 cents, a difference of $560, and subtracting the net loss of $268 would leave the farmer at 50 cents per pound a net income of only $292 for the year's work.

It is absolutely necessary that the producer receive a profitable price for his cotton that will enable him to rebuild rural conditions so as to attract and hold his labor. A census of white homes of cotton producers taken consecutively at various sections of the cotton belt proved the absolute necessity of this. This investigation brought to light that there was running water in only 5 per cent of these homes; only 4 per cent of the homes had lights, either acetylene or electric; only 2 per cent contained sewerage. Five hundred negro homes, of course, showed the absolute absence of any of these, but it further showed the fact that it will require the expenditure of billions. The white man returning from service has brought a new vision. He will no longer tolerate the deplorable conditions that have existed for the last 60 years. Unless cotton brings a price that will change these conditions he will refuse to return to the cotton farm. The Negro comes back with a different viewpoint. He refuses to longer to seek employment in producing cotton under existing conditions. He is accepting more comfortable surroundings and larger remunerations which are freely offered to him in other lines. This is resulting in the spread of discontent throughout the entire cotton belt and is bringing about a great shortage of labor.

Referring to the increase in the price of the staple products consumed in growing cotton, the following make up the major part of this cost: Bacon, dry salt ribs, lard, corn meal, flour, oats, corn, sheeting, ticking, calico, plaids, osnaburgs, and fruit of the loom. Retail merchant's books and local market quotations approximate, with much more accuracy than any other records, the price the growers of cotton have to pay. These records show that, from 1913 to May, 1919, the price of these commodities advanced 273 per cent, most of it during the last 20 months. As labor makes up, according to the best authorities, about 50 per cent of the cost, these figures show an increase in the cost of growing cotton during this period of 256 per cent, or 34.56 cents per pound. In other words, cotton to-day would have to sell at 48.06 cents per pound to bear the same relation to the expense involved in its production that it bore in 1913, when the average price was 13½ cents. These figures point, with a fair degree of precision, to a loss of more than a billion dollars on the indicated crop, if it should be sold at the current price of future contracts. Yet the public, in the South as well as in the North, is always keyed up over the crop reports, while what the cotton is going to cost is either neglected or ignored.

High prices of cotton as compared with former years must inevitably continue because of high cost of production. Moreover, unless prices are high enough to have a stimulating effect upon cotton production, the world will within a few years face a cotton famine of serious import. The world will continuously need a very much larger supply of southern cotton than we have ever raised on account of the greatly increased demand, and some years our crops have been very small, and this year's promises to be exceptionally so.

As labor and foodstuffs and iron and steel have been lifted by the war inflation to a very much higher plane of cost than in former years, so cotton must inevitably go. Every man who seeks to lower the price of cotton is seeking to permanently decrease the world's supply to a famine condition, for the farmers of the South have become thoroughly alive to diversified agriculture, to live-stock raising as a business, and to the opportunities of profitable employment in industrial pursuits. Even 50 cents a pound for cotton will not bring them back to the all-cotton system.

The cotton producer has already received the actual benefits of diversified farming. He will never return to the all-cotton system. In the 11 years between 1909 and 1919, both inclusive, the total value of the cotton crops of the South was $13,236,000,000. Any fair valuation whatever would have caused these crops to sell for $25,000,000,000, and this extra $12,000,000,000 would have brought an enormous enrichment to every section of the cotton-producing region. It would have meant more and better schools and larger and more attractive churches. It would have meant a broad development of the whole educational system of the South. It would have prevented the great illiteracy which exists in many parts of the South. It would have taken out of the cotton fields the hundreds of thousands of women whose work has helped to make the cotton of the last 50 years, and without whose work the cotton crop could never have been sold at the prices which prevailed. It would have meant better roads and better farm conditions. It would have swept out of existence the miserable huts unfit for human habitation in which millions of negroes and poorer whites are compelled to live. It would have built up a broad prosperity on the farm and in the village, in the town and in the city, such as is seen in Nebraska, Iowa, and Kansas.

Vast as is the $13,000,000,000 received in 11 years for the South's cotton, when taken by itself, a new light dawns upon the situation when studied in connection with the value of other crops. Cotton, the royal staple which shapes the politics, the industrial activities, and the financial wealth of much of the world, brought $13,000,000,000 for 11 crops. But hay, of which we rarely think in terms of billions of dollars, brought during the same 11-year period over $11,000,000,000. Cotton means intense cultivation: hay grows without cultivation. Cotton brought to the South very small profit on the enormous total value produced. It neither enriched the soil nor the producer. It meant exhausting work to millions of people who cultivate it, but hay, which grew without cultivation, which was easily harvested and marketed, brought almost as much in aggregate value as the cotton crops and was to a very large extent net profit to the growers, as compared with scarcely any real profit for the cotton producers. Even the oat crops produced in the 11 years reached in value more than half as much as the cotton crops.

Wheat, which like hay, grows without cultivation after it has been once sown, and which is easily harvested, yielded a total of $10,830,000,000, or nearly as much as cotton; while the value of the corn crop, which, except in the form of meat, enters scarcely at all into the Nation's foreign commerce, reached a total of more than $26,000,000,000, or double the value of the cotton crops, and to this should be added the value of the fodder, a very large item.

Corn and wheat and oats and hay have yielded enormous profits to the growers. They have enriched the sections which produced them, enriched the individual and the communities and brought abounding prosperity to people of all classes throughout the great grain and grass regions of the West. But cotton, earth's most priceless product, cotton, which shapes the destiny of hundreds of millions of people who depend upon it for clothes, yielded a scanty living in the past to those who produced it. They exhausted their mental and physical vitality, exhausted the soil and drained the South as a whole in order to enrich the rest of the world at the expense of this section. Surely the time has come when any man who has a conscience void of offense to God and man should unite in working for a price for cotton which will bring to the South and to individual cotton producers the abounding prosperity which wheat and corn and hay have given to the individual farmers of the West, as well as to all of the ramified interests of that section.

Every line of manufacturing in the South will be limited in its development until cotton brings a profitable price to the growers. Every educational advancement of the South will be lessened in its efficiency until cotton brings a profitable price to the producer. Every religious activity of home missions and foreign missions will be limited in its work and in its power to raise money for the extension of the Gospel throughout the world until cotton brings a profitable price to the grower. Every road construction undertaken in the South will be limited in its expansion and in its influence for good until cotton brings a profitable price to the producer. Every country school and every country church will continue as at present, inefficient, inadequate to the work it is trying to do, occupying as in most cases some wretched building, unfit for the purpose, until cotton brings profitable price to the grower. Every school-teacher in the South, every minister of the Gospel in this section, will receive inadequate salaries until cotton brings a profitable price to the grower.

In the light of these facts it becomes the solemn duty of every man and woman, regardless of profession or occupation, to do everything in their power to encourage the thought and to cooperate in the work of securing a profitable price to the growers. And what must this price be? In the first place, it must pay to the worker in the cotton field, whether he be a day laborer or a tenant, as large a wage as he could make in similar employment elsewhere. It should mean an income to the family which would send the children now in the cotton fields into the schoolhouse and the women back into their homes. On top of this it should mean a fair rate of interest on the capital invested in the land, after allowing for the better fertilization of the soil, a fair profit on the live stock and the farm equipment used, after depreciation and a profit have been counted. And until cotton brings a profitable price the producer will continue to plant more largely other crops.

The American Cotton Association was formed less than one year ago and it is already becoming the guiding star of the cotton producer. With representatives in every section of the entire cotton belt, and a membership of over 1,000,000 farmers, merchants, bankers, business and professional men, it is showing the farmer that he produces the fiber that clothes all the civilized world, a product that all mankind must have, and for which they must pay him a profitable price. Otherwise it is a matter of safe, sound business for him, not only to reduce his cotton acreage, rotate his crops, planting largely in other crops, but to reduce them to such an extent that the world will pay him a profitable price for his cotton.

To meet these changed conditions, the farmers, merchants, bankers, business and professional men of the cotton-growing States met in a determined cooperation and organized the American Cotton Association. The objects and purpose of the association are as follows:

1. To protect the interests of the cotton producer and to improve his condition.
2. To promote economic regulations of cotton production to the end that supply shall be so adjusted to demand that the producer shall at no time be required to sell his product at less than a fair and reasonable profit.
3. To promote intelligent diversification of crops, and to develop markets for such crops, other than cotton, as may be profitably raised.
4. To improve and enlarge presently existing warehousing facilities and to secure additional facilities to the end that the producer may carry the crop, or such part as he may desire, at the minimum of expense and physical damage and at the maximum of security and financeability.
5. To broaden the markets for raw cotton and to enlarge the uses for cotton and cotton goods.
6. To improve and increase transportation and distribution facilities.
7. To collect information as to both domestic and foreign consumption of cotton, the state of trade, the extent of acreage, supply and condition of crop, and all other information of practical interest to the cotton industry, and to disseminate the results through the several suborganizations to every member of every community, together with directions as to the course to be pursued in order to secure the best results in view of the facts disclosed.
8. To do all and singular whatsoever may be conducive to the stability and profitableness of the cotton-producing industry.

With representatives in every cotton-consuming country of the world the American Cotton Association will, at regular intervals, issue definite information concerning supply and demand. It will issue a regular semimonthly report on supply and demand and a crop report to its members. This information is of vital importance and will prove very advantageous. It will furnish information as to the cost of manufacturing the various grades of cotton cloth out of various grades of cotton, so that the producer by subtracting these figures from the published prevailing price on cloth can ascertain the price for his raw cotton. Based on supply and demand, it will furnish information to the public, showing the world's need for cotton in advance of the time for planting, so that the producer can plant only such acreage in cotton as, with average seasons, will produce sufficient cotton for the world to consume at remunerative prices, planting other lands in food and feed crops. Operating the farm on a business basis will be the result. It will maintain an active bureau on publicity, to keep the producer fully informed as to all conditions bearing on cotton, and will also furnish the cotton-consuming world with information that should be placed in its possession. It will give special attention through special committees and experts to soil improvement, seed improvement, live-stock improvement, furnishing information along these lines to its membership, and will urge the importance of crop rotation and diversification. The association will hold conventions attended by representatives from every cotton-producing county in the cotton belt, when a minimum price based on supply and demand will be recommended on cotton from the growing crop, and the acreage to be planted the following season, also based on supply and demand, will be recommended. Other lands will be planted in feed and food crops, so that the farm can be operated on a business basis.

The American Cotton Association will undertake, in behalf of the cotton-growing interests of the South, to evolve out of the present primitive, wasteful, and unprofitable handling and marketing of the cotton crop economic and efficient methods of baling, warehousing, handling, and marketing the staple, so as to permanently provide fair and reasonable prices for the growers. In the reconstruction of this country's industrial and agricultural business as an aftermath of the World War, economy and efficiency must be the guiding features to success. How and in what way does the American Cotton Association propose to organize the growers and allied business interests so as to relieve the wasteful and existing unsatisfactory and intolerable burdens, and bring into practical realization those economic and efficient reforms which will make the future production of cotton both profitable and attractive to the growers? The following three planks incorporated into the general platform of the American Cotton Association answers the question and will make possible a speedy solution of the many vexed problems by which the growers have been confronted during the past 50 years:

First. The economic reform of baling cotton through the adoption of high-density gin compression at every gin plant in the South.

Second. The establishment of ample cotton warehouses at all interior cotton markets and at the ports, with space sufficient to store every bale of cotton produced until sold and shipped for consumption.

Third. The efficient organization and capitalization of county cooperative cotton-marketing societies and State cotton corporations throughout the cotton-producing States, so that the growers will own and control the agencies and machinery for marketing their cotton and cotton seed direct to consuming establishments in this country and in Europe.

The cotton growers expect to emancipate themselves from a continuance of agricultural slavery in the production of cotton, and they will control the entire machinery of the raw-cotton industry from the time the seed is planted in the soil until the harvested crop is delivered into the hands of the consuming mills.

If cotton bales are gin compressed with the use of high-density machinery, it means the complete and final preparation of each bale for economic storage, handling, transportation, tare, insurance, elimination of sampling and resampling, waste, country damage, and the delivery of a high-class commercial package acceptable to the spinners. Under such a system the recompression of cotton bales would be eliminated and the congestion of cotton at large compress points avoided. There would be practically no danger from fire or damage from weather exposure, and the net-weight contract for marketing cotton could be easily introduced. Each bale of such cotton could be sampled properly when in the process of compression by the ginner, acting under State or Federal appointment, and when the bale left the press there would be no need of the cutting and mutilating of coverings for samples, which are so expensive under existing conditions. The covering should be of light, closely woven burlap, uniform in weight, and the use of jute bagging entirely eliminated.

The producer fully realizes the advantages to be gained by gin compression, and the American Cotton Association is fully determined to bring about this long overdue change. Some of the so-called fixed charges deducted from spinners' prices by exporters in making prices to farmers, the net price varying each day according to the fluctuations of speculative cotton exchanges, are amply illustrated as follows, these deductions applying to present methods of baling and marketing spot cotton for a 500-pound bale:

Fixed charges deducted, assuming price of Liverpool market to be 40 cents per pound delivered.

6 per cent for tare, 220 points	$11.00
Local warehouse charges and insurance, 20 points	1.00
Average interior freight, 40 points	2.00
Recompression for density, 15 points	.75
Ocean freight to Liverpool, 200 points	10.00
5 pounds average loss in weight, 40 points	2.00
Docking and day charges Liverpool, 10 points	.50
Marine insurance charges, 40 points	2.00
Average undergrading, 30 points	1.50
Commission, 40 points	2.00
Total, 655 points	32.75

Showing a deduction of 655 points or $32.75 and leaving net price to grower at 33.47 cents per pound, basis middling.

Fixed charges which would apply to a bale of cotton, high density gin compression, under same conditions:

Deduction for tare, 12 pounds, actual cost, 50 points	$2.50
Local warehouse charges and insurance, 10 points	.50
Average interior freight, 40 points	1.00
Ocean freight to Liverpool, 150 points	7.50
Docking and dray charges Liverpool, 10 points	.50
Marine insurance, 20 points	1.00
Commission, 40 points	2.00
Total, 320 points	16.00

Showing a deduction of 320 points or $16 and leaving net price to grower of 35.84 cents per pound, basis middling—a net difference in favor of the economic high density gin compressed bale of 237 points of $11.85.

This net difference applied to a crop of 12,000,000 bales means a net saving to the growers of $142,200,000, enough to pay the initial cost of equipping every first-class ginnery in the South with high-density gin-compress machinery and building all additional interior warehouses needed to safely house the crop.

The South has lost millions by permitting its cotton to stand out in the weather, the Department of Agriculture showing this loss to be as high as from thirty-five to fifty-five millions a year. The American Cotton Association has on a campaign for the erection of warehouses in each county or parish in the entire cotton belt, owned and controlled by the people of said county or parish, and operated under either the Federal or State warehouse act, to provide storage for every bale of cotton produced. More of these warehouses are being constructed to-day as a result of this work than at any time since the war between the States. Over $3,000,000 has been raised for this purpose within the last month. Each warehouse will be constructed with the sprinkler system, so as to reduce to a minimum the cost of insurance. Each warehouse will be bonded and placed under the control of State or Federal law. An expert sampler and grader will be placed in charge of each warehouse by appointment of State or Federal law. Every receipt issued by such an agency will show the serial number of the bale, its correct weight and grade, the number and location of the warehouse, officially signed by the agent in charge, and delivered to the owner of such cotton. Cotton stored under such conditions can be readily financed under the Federal Reserve banking system at lowest rates of interest.

In addition to this the law has been amended permitting the national banks to make loans of 25 per cent of their capital and surplus on cotton so stored, instead of 10 per cent as heretofore. The marketing of the crop will be regulated in this way to meet the legitimate needs of the consumer, absolutely overcoming the disastrous effects of speculation and manipulation of prices by the cotton exchanges in this country and Europe. In this way the law of supply and demand will regulate for the first time. The price of raw material cotton can and will be stabilized on the basis of fair and profitable returns to the grower, and he will not continue to produce cotton except upon a reasonable and profitable basis.

The American Cotton Association has urged the importance of making these warehouses "warehouses of delivery" for the exchanges, so that cotton bought by contract on the exchanges can be delivered from said warehouses. This arrangement will be greatly to the benefit of the manufacturer as well as the producer and will furnish a large source of legitimate business to the exchanges. Therefore cooperation in putting into effect this arrangement should be received from the manufacturer and the exchanges.

Viewed broadly, the producer and the manufacturer should be indispensable halves of an industrial whole. If this view had been mutually held, conditions would be far different to-day. "Let the dead past bury its dead." It is, of course, useless to raise the question as to who has been responsible for beating down the price of cotton for the last 60 or 100 years.

As an illustration of this matter of beating down the price of cotton, I quote the following cases:

In leading eastern papers of the United States there appeared on April 15 last a lengthy letter written by Mr. Randall N. Durfee, chairman cotton buying committee. National Association of Cotton Manufacturers, making a malicious attack upon the cotton-growing interest of the South, based upon its effort to reduce its acreage in cotton and increase its acreage in foodstuffs. In this attack he stated that the cotton farmer was making a misleading statement as to the cost of production for the purpose of saving the payment of income tax. Mr. Durfee stated, further, that cotton could be produced and sold profitably at 11.28 cents per pound, basis middling. He bitterly arraigned southern farmers, while gloating in the enormous prosperity of Massachusetts as compared with that of the South, and used this fact as an argument as to why the South should continue to sell cotton at a low price. His letter is in keeping with the efforts which have been made for three-quarters of a century to hold down the price of cotton, to the detriment of the South.

In 1904, Mr. C. W. Macara, president of the Federation of Master Cotton Spinners' Associations of England, cabled to all the leading cotton manufacturing associations of the world a suggestion that they should enter into a plan for breaking down the price of cotton. In explaining the reason for this, he said: "To endeavor to bring about an international union of users of cotton is a work well worthy of a serious attempt." And to this he added the following remarkable statement: "For no combination of holders of any raw material can long stand against a combination of users of that raw material."

In a report to the British Parliament, made about three-quarters of a century ago, it was suggested that British cotton spinners should put forth their utmost efforts to

hold the price of cotton down, so that the cotton growers of the Southern States of America would be forced to increase their production by more profitable prices, but to drive the price to the lowest point possible on the theory that the cotton grower had to have a certain amount of money, and, therefore, he would be forced by low prices to increase his output. That report is typical of the efforts of the cotton buyers of the world for a century to beat down the price of cotton to the lowest possible point and force the cotton growers of the South to compete with the cheap farm labor of India and China.

In his address on May 24, 1904, to the International Congress of Master Cotton Spinners and Manufacturers Association of the World, Mr. Macara emphasized the importance of getting an abundant supply of cheap cotton, and said: "There is little doubt that cotton can be grown at a profit in the United States at 3½d. to 4d. (7 to 8 cents) a pound, according to the yield."

The same thought was expressed by other delegates to that convention. Herr Kuffler, of Austria, in discussing the cotton situation, said: "We want cheap cotton," and "we hope cotton will go down again, if not to 3d. to 4½d."

This was not a new thing for spinners to do. For 100 years the fight of European spinners has been to decrease the price of cotton to the lowest possible figure, and during that entire time European papers and the reports of European cotton associations have been filled with stories of the efforts of cotton manufacturers to break the price of cotton. The above are only among the many cases where united efforts have been used to beat down the price of cotton. It is not necessary to go further into the records, for one thing is certain, the producer paid the penalty. He has his own opinions, based upon the record, as to who was responsible. He has never heard of a protest from any source, manufacturer or manipulator, against any steps that were taken to depress the market. Violent protest has been raised when the market was boosted by manipulator and manufacturer. One thing is certain, the price being paid for cotton to-day is below the cost of production, is far below the price of the manufactured product, and the producer feels that he should have at least a remunerative price for his cotton, with a share in the profits; that the price should be based on supply and demand and the price of the manufactured product, less a fair profit to the manufacturer. He does not ask or expect anything more, but will not be satisfied with less. He absolutely refuses to profiteer, even were it in his power.

"A burnt child fears fire." The producer can find no law, human or divine, to force him to continue to produce cotton for the purpose of selling it below the cost of production, nor is there any divine command resting upon the South to raise cotton, either for the purpose of maintaining the supremacy of this country in the cotton trade or for clothing the world. Therefore, the southern farmer is determined to operate his farm upon a business basis; his production of cotton will continue to decrease; his production of other more profitable crops will continue to increase, until profitable prices are paid for cotton.

In fairness and justice to the producer, as a matter of protection to the manufacturer and the consumer, I urge that this great conference squarely face the issue; that they appoint all necessary committees with full authority to make a study of these questions, including the cost of production of cotton and the various questions bearing thereon; to make a study of the various methods used in the handling of cotton and not only recommend but assist in changing these antiquated methods so as to reduce the cost of production in every way possible; to remove all unnecessary rehandling of cotton; to arrange as far as possible direct dealings with the producer. I urge in the strongest terms that they use every means to cooperate with the producer. This action will be simple justice, not only to the producer and the manufacturer, but to the consumer of cotton goods.

The greatest need of the world to-day is cooperation; that is, working together, which implies friendship, brotherhood, mutual confidence, joint endeavor, mutual sympathy, and support. The old world is dying around us. Our gospel should be that original one of "good will among men"; of human comradeship beyond the limits of nations; of fellow-feeling and common service in a great human cause. We should hear the great creative Spirit utter those tremendous words, "Behold, I make all things new." We should work for a better, happier world to arise from these ruins among the nations of the world. If we fail, 10,000,000 young men will have given their lives in vain.

Mr. WANNAMAKER. The policy as advocated by the Government at that time was to forge ahead and produce to the limit, as the world was both hungry and unclothed as a result of the World War, and

it was urged that the agricultural fields of America would be depended upon to supply both food and clothing for the millions of population, aside from the needs of the United States.

The leading topic of discussion during the session of the World Cotton Conference by growers and spinners was upon the supplies of raw cotton to be produced in 1920 to meet the requirements of the world's spinners. The committee on supplies, distribution, and world's requirements, composed of representatives from every cotton-consuming country in the world, was unanimously of the judgment that the world would need not less than 15,000,000 bales of American cotton in 1920. Joint conferences, for the first time in the history of the cotton industry, upon invitation of the spinners, were held between the growers and the spinners. It was clearly demontrated by facts and statistics that the world's textile industries faced a raw-cotton famine, and that the crisis could only be averted by the production of at least 15,000,000 bales of American cotton in 1920. A leading world expert economist on the textile situation fully confirmed these views, and it was plainly asserted in the convention by leading domestic and foreign spinners that it would be nothing short of a crime to the whole civilized world if, in the face of a future forecast for demand, the growers of American cotton in 1920 should reduce the cotton acreage.

Not only was a largely increased cotton acreage urged, but a national and international policy for securing increased production of all staple crops, and especially was this so in the case of American cotton, with a promise of continued price levels for the staple which existed at the time or better.

The matter of the enormous increase in the cost of production of cotton was presented by the growers. It was shown that, based upon the cost of production of cotton in tests made by the Agricultural Department, that based upon the enormous differences existing in grades, the cost was approximately 37 cents per pound basis middling, and that the cost of production for 1920 would, most assuredly, be much higher. Regardless of this, it was urged that it would be a poor business policy to reduce cotton acreage as there was an absolute certainty that there would be a pressing demand for every pound of cotton which could be produced in 1920 at a profitable price to the producer.

Concerning the drastic artificial deflation policy and the closing of exports, it was urged that deflation could not come except after a long period of time; that the enormous expenditures for the World War would necessitate a long period of inflation; that the War Finance Corporation was created for the purpose of functioning one year after the ratification of peace, as one of the most important duties was to arrange so that Europe could secure raw products to enable her to rehabilitate and commence to discharge her enormous war debts.

As a result of this conference and assurances for continued demand of American cotton in larger quantities, the American Cotton Association withdrew its formulated campaign for curtailing cotton acreage in 1920 and urged the farmers to replant the full 1919 cotton acreage. Under the stimulation of a strong demand for cotton and advanced prices in the spring of 1920, the growers exceeded the 1919 acreage

by more than three and one-half million acres—planting one of the largest crops ever cultivated and grown in this country. Prices for spot cotton continued to advance during the cultivation of the crop and reached their zenith about the end of cultivation in July. The farmers, unlike manufacturers, merchants, and other lines of commercial and industrial activities, are unable to shut down or hedge against adverse price or market conditions after their crops are planted. Their fields prepared, planted, and in process of cultivation, they must go forward to the end of the harvest and meet whatever fortune or vicissitude confronts them in the marketing of their products.

It must also be borne in mind that the cotton crop of 1920 was planted and cultivated at the very peak of high prices for labor and all classes of supplies required for crop production, which made it the most expensive and costly ever grown in this country.

The cost of the 1920 cotton crop being shown by the Agricultural Department at 33 cents per pound bulk line, all grades, which would amount to approximately 40 cents per pound, middling based upon the differences in grades, for the 1920 cotton crop.

In the spring of 1920, after the crops had been planted and the expenses necessary therefor had been incurred so that it was impossible to reduce the acreage or protect the producer, the officials of the American Cotton Association, learning that a policy of drastic artificial deflation would be made effective, and that the first steps for this purpose would be the curtailing of exports, immediately took the matter up with the Secretary of the Treasury.

It will be noted in a letter from Secretary Houston, dated March 4, 1920, he states:

> I do not think it would be wise for the Government to subsidize our producers and to maintain or increase the high level of prices here by stimulating sales to European countries which find themselves unable or unwilling to make payment for their purchases.

In a letter, dated March 13, 1920, he quotes Secretary Glass as stating:

> The industries of the country must be brought to a realization of the gravity of this problem, must go out and seek markets abroad, must reduce prices at home and abroad to a reasonable level, and create or cooperate in creating the means of financing export business.

The arbitrary suspension of the War Finance Corporation in the spring of 1920 by the Secretary of the Treasury, David F. Houston, removed the machinery which had been provided for the exportation of American staple crops, and the creation of which had induced the planting of a full acreage in staple crops for 1920. Had the producers been able to obtain the slightest intimation that this action would be taken, the production of staple crops would have been enormously reduced, this being especially true of cotton, as they were fully impressed with the vital importance of machinery for exportation and the financial means whereby they could market their cotton, two-thirds of which goes into the foreign markets.

In addition to the removal of the War Finance Corporation, the continuous announcement through the press by the Secretary of the Treasury concerning the suspension of same, and his continued statements that the Government would not assist in furnishing finances or take steps that would result in maintaining present high prices,

or prices in excess of prewar prices, as it would be a conspiracy in restraint of trade, had an immediate and fearfully depressing effect upon the price of cotton. This was the first positive knowledge that the producers had that the Government would inaugurate methods of drastic artificial and enforced deflation through the use of its powerful financial machinery.

The suspension of the War Finance Corporation by Secretary Houston put this country and Europe upon notice that no further governmental aid would be rendered foreign manufacturers or American producers in the exports of staple American products; neither would the machinery for exporting be provided, nor would long-term credits be furnished, for which the foreign consumers stood in such pressing need.

This action of Mr. Houston practically placed an embargo on our exports, and especially did this most seriously affect the market for American cotton. Central Europe had just arranged to enter the market for large quantities of low-grade cotton—for a long period of time the American producers had only been able to sell of their best grades. The removal of the War Finance Corporation being made after a large amount of cotton had practically been sold, thus destroyed not only this sale but closed the markets for large increased sales, especially of low-grade cotton, as two-thirds of each normal crop must be exported to provide and maintain a satisfactory demand for the staple. This action practically entirely closed the markets to a large portion of the foreign demand.

All efforts to induce Secretary Houston to revive the War Finance Corporation were unavailing.

Following the removal of the War Finance Corporation there was no demand for low-grade cotton, and best grades could only be sold in a limited way. Statements issued through the press from Washington from time to time, and circulars sent out by the regional reserve banks, tended to destroy confidence so that the manufacturers commenced to curtail their purchases.

The retail merchants commenced to curtail purchases and the wholesale merchants did the same. People had seen "the handwriting on the wall"—the constant statements that prices must go lower meant that they could save money by waiting and the result of this constant propaganda was the cancelation of the largest amount of orders that has ever been canceled in America. Had it not been for this constant propaganda and this policy of deflation, and had deflation come in an orderly manner, no such conditions would have ever arisen.

Agriculture, which stands preeminently at the head of American industries, has no representative on the Federal Reserve Board who has either a practical knowledge of agriculture or sympathetic tendencies therewith. In the light of facts which have transpired within the past 12 months, this disregard of the clear provision of the Federal reserve act in providing the personnel of the board has proven of incalculable damage to the vast army of agricultural producers in the Nation. With a fuller and more intimate knowledge of the agricultural industry and the necessary credit requirements of the farmers, the present debacle of wreck and ruin among that class of the Nation's most important wealth producers would have been prevented, or at least greatly alleviated.

There are but three leading sources of primary wealth production in the United States—agriculture, mines, and forests—and of these, agriculture is far more important in wealth production and as a vital need to human life and civilization. In recognition of this important fact, it is imperative that the financial machinery of the Nation should especially operate to safeguard and protect, in every legitimate way, the needs of the farmers for credit during periods of production and in the orderly marketing of their crops and live stock. This fundamental principle was fully recognized in the framing of the Federal reserve act by Congress in providing for the creation of a Federal Reserve Board and extending the time limit for rediscounting farmers' papers, and in the enactment of special legislation permitting a larger proportion of a bank's capital and surplus to be loaned on agricultural paper with warehouse receipt for staple farm products as collateral.

The provision of the law, however, in the appointment of the membership of the Federal Reserve Board has been ignored, and for your information I beg to quote from the Federal reserve act to show wherein the plain requirements of the act have been disregarded:

SEC. 10. A Federal Reserve Board is hereby created, which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice of the Senate. In selecting the five appointee members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country.

The cultivation of American cotton covers one-third of the farming area of the United States, and its production and sale is now recognized as the most valuable monetary primary asset of the Nation. Not only is the cotton industry as a whole the leading industrial business in the domestic commerce of the United States, but its exports to foreign countries have for many years been depended upon to maintain the balance of trade in favor of this Nation. These significant facts are well known to every student of the Nation's domestic and foreign commerce. Any method of national finance, therefore, which results in striking down or stagnating the cotton industry in this country, gives a blow of incalculable damage, not only to the large territory in which the staple is produced, but to the business and finances of the entire Nation, including the Government.

I shall undertake to show in my testimony before this committee that the sudden and continuous declines in the prices of raw cotton and other staple farm products in the fall of 1920 was not due to the requirement of trade readjustments two years after the cessation of the World War, but to a policy of drastic artificial and unnecessary deflation inaugurated and enforced upon this country by the action of the Federal Reserve Board and the Secretary of the Treasury in 1920.

An examination of all records of history brings to light the fact that during and following wars there is always inflation. This is due to abnormal consumption of commodities, created by war, to decreased production, and primarily to the fact that the governments encourage and foster inflation for the purpose of financing said wars. From time to time through history for the last 3,000 years we find that

great money powers have taken advantage of such inflation to put on artificial deflation, and that artificial deflation has always affected the prices of agricultural products more seriously than any other industry in the Nation. We find that artificial deflation has been enforced through the raising of the interest rates, contraction of currency, and contraction of credits. We find an example of this in Greece in the time of Solon's legislation, 594 years before Christ. The bulk of the population who had originally been small proprietors or metayers, as a result of artificial deflation, became indebted to the rich to such an extent that they were practically slaves. Those who still kept their property nominally were in the position of Irish cottiers. They owed more than they could pay, and stone pillars erected on the land showed the amount of the debt and the names of the lenders. This financial policy had given all of the power of the State to a small plutocracy.

The remedy which Solon adopted was of the kind that we are accustomed to consider as purely modern. In the first place, it is true that according to ancient practice he proclaimed a general siesachtheis, or shaking off of burdens. He canceled all the debts made on the security of the land or the person of the debtor. This measure alone would have been of little service had he not at the same time enacted that henceforth no loans could be made on bodily security of the debtor, and the creditor was confined to a share of the property. In consequence of this simple but effective reform, great benefits were brought to the people of Greece.

About 84 years before Christ, however, we find that the rate of interest in the city of Rome was about 4 per cent, while in the Provinces it was much higher. Justinian, who was then ruling, fixed the rate at 6 per cent, except for mercantile loans, on which the rate was 8 per cent. Cicero mentions that Cato, being asked what he thought of usury, made no other answer to the question than by asking the person who spoke to him what he thought of murder. Christ drove the money changers out of the Temple for charging usurious rates of interest.

An examination of the history of panics and financial depressions in America brings to light the convincing proof that these conditions always have a most disastrous result upon agriculture, and especially upon the cotton growers. This is due to the fact that two-thirds of the American cotton crop must be exported; also to the fact that while cotton is a necessity, during periods of great depression the first requirement to human life is food; hence the demand for cotton and cotton goods feels the effects of such conditions before the demand for food products.

The artificial deflation of about 1873, which was put into force some eight years after the close of the War between the States, brought wreck and ruin to agriculture.

The commencement of the World War, in 1914, on account of the effect it had upon exports and the demand for cotton in foreign countries, had brought fearful losses to the cotton producers. It was due to actual experience, in addition to an understanding of the disastrous effects of artificial deflation, that every precautionary measure possible was adopted to avoid being caught in the trap of artificial deflation. Probably at no time were the cotton producers better posted on the statistical position of cotton—supplies, demands,

and world requirements—than during the last several years. Their leaders knew that the representatives on the commodity side of the peace conference from the cotton-consuming countries of the world were seriously alarmed over the supplies of raw cotton, and that it was the consensus of opinion of many of such representatives that the world was facing a cotton famine, and that this judgment, which was the unanimous judgment of the delegates to the commodity side of the peace conference, was confirmed by leading experts on cotton.

The following statistics, taken from the reports of the United States Census Bureau, give the exports of American cotton each year since 1912:

1920	6,598,347	1916	6,191,110
1919	5,663,920	1915	8,544,563
1918	4,476,124	1914	8,914,839
1917	5,739,009	1912	10,681,758

These figures are interesting as a study of the heavy falling off of exports since the World War was declared in 1914 and up to the present time. Fortunately for the South, the crops of American cotton produced during the period of 1915–1919, inclusive, were short, owing to adverse climatic conditions, scarcity of labor, etc.

It will be noted that the first sharp drop in cotton exports occurred in the year 1916, with a shortage of four and a half million bales as compared with exports in 1912. In 1918 the loss was two and a half times below those of 1912. The situation began to improve in 1919 and was getting materially better in 1920, when the world financial crisis came on and practically put a stoppage to the wheels of industry, and especially cotton consumption.

In the meantime, while underconsumption has been so conspicuous for the past few years, the surplus of American cotton has been accumulating, especially the lower grades, because of the closed markets in central European countries. If all the world cotton spindles could have been in constant operation, and the real needs of cotton clothing supplied, there would to-day be a shortage of raw cotton instead of a surplus. This is clearly evident from the fact that there has been a lossage in American exports, due to underconsumption since 1914 to the close of 1920, of 28,644,394 bales, as compared with the exports of 1912. Even on the reduced export basis of 8,900,000 bales in 1914, there has been a total lossage in foreign underconsumption of 16,275,961 bales for the years 1915 to 1920, inclusive. This would have wiped out the entire surplus heretofore carried over each year and absorbed every bale of the large crop produced in 1920. With such demand, prices for the raw product would have been correspondingly good.

These facts show that, based on the world's present spindle capacity, without adding another new spindle or loom, there has been no overproduction of American cotton. The trouble is found in underconsumption during the past few years through the stoppage of millions of foreign spindles, or their operation on short time, due to war and the economic situation which has developed as a result of the war, the contraction of credits, and restriction of exports by governmental agencies.

As a result of the drastic artificial deflation policy of the Federal reserve banking system, enforced through restrictions of credits, contraction of currency and high usurious rediscount interest rates on

the banking interests of the cotton belt, the financial condition of the farmers and business interests generally are worse than ever known in the history of that section in peaceful times. With a disorganization of the financial machinery of the country by the action of the Federal Reserve Board, and the arbitrary suspension of the War Finance Corporation by the then Secretary of Treasury, David F. Houston, in the spring of 1920, confidence in business activity was destroyed, markets stagnated and exports throttled, and the steady flow of credits through the banks to the people checked.

In order to present an intelligent and comprehensive statement analyzing the present financial conditions in the cotton belt at the present time, it is necessary that your attention be called to the conditions prevailing in the raw cotton industry in the fall of 1919 and the spring of 1920.

Up to the close of 1919 the Southern States had produced five successive short cotton crops, averaging slightly in excess of 11,000,000 bales each year. The active cotton spinning mills of the world were operating on full time and the demand for cotton goods was far in excess of supplies at abnormally high prices. The markets for the better grades of spot cotton were most active at the best prices prevailing for several decades. This was the condition in October, 1919, when the world cotton conference assembled at New Orleans with representatives from 13 different countries. Just prior to this conference, rumors had been current from certain financial centers that some system of deflation in prices would be inaugurated to lower the high cost of living. The officials of the American Cotton Association, as a result of these rumors, were seriously considering the inauguration of a southwide cotton acreage reduction campaign for 1920.

At a largely attended convention in New Orleans in the early fall of 1919, which convention was attended by merchants farmers and bankers from the 14 cotton-growing States, the matter of drastic artificial deflation and the closing of exports was given serious consideration, it being unanimously agreed that it would be the part of folly to attempt to produce cotton in case exports would be closed or a drastic artificial deflation policy enforced, as it was necessary to incur the expense of production many months before the crop could be harvested and marketed; that under a deflation policy, it would spell the absolute necessity of heavy losses; that in addition to this, if exports were closed, as it is necessary to export two-thirds, of the American cotton crop, this, in itself, would bring disastrous results. A resolution was forwarded to the President concerning this matter.

As president of the American Cotton Association, I only consented to take part in the world cotton conference with the understanding that I was to deliver an address upon the necessity of paying a profitable price to the producer and was to act as chairman of the committee on supplies, distribution, and world's requirements of cotton.

I presided over this conference that represented 13 cotton-producing countries of the world. The first question that practically split the committee was this: I got up as chairman, having some one else to preside, and said: "Gentlemen, I want to be perfectly frank about this situation. Unless we can be assured in some way that drastic deflation will not take place artificially, in which event we would be worse off than ever, we will have to reduce the acreage; and it takes time to produce cotton."

The committee selected probably three of the best experts in the world on cotton. Those experts unanimously came back to the committee and said: "The world will need 15,000,000 bales of American cotton. We are facing a cotton famine."

In the second place they said: "Under these conditions if you should put out propaganda to decrease cotton production it would be little short of criminal. The world is in dire need of it, and people have not supplied their wants with the semi-necessity, clothing, for nearly four years."

I appointed a subcommittee, and they went over this proposition, and agreed unanimously that there was going to be no doubt in the world, according to statistics, that the world would need 15,000,000 bales of American cotton from the 1920 crop.

But our committee still refused to withdraw their proposition to reduce cotton acreage drastically until they had further information. They held a conference for the first time in the life of the cotton producers of America—held a conference with the spinners. They invited me to the conference. I had the honor and the pleasure of sitting by some of the most prominent men in the spinning business, as well as some of the humblest cotton producers in the business. The situation was discussed pro and con. I suggested: "Gentlemen, if you permit this to go out you will get caught in some trap." I wanted the matter looked into most carefully, and I want to say, gentlemen of the commission, here is what we found out in the peace conference: We are facing a cotton famine. You have an opportunity such as you never had before in the matter of cotton production.

Well, we had three different conferences. As a result of those conferences I wrote to President Wilson—and I will give you the letter later on, when I can reach it, for the record—and asked him if he would not take this step: Would he not call to Washington the representatives of the various agricultural groups and various groups interested in commerce, which I named, for the purpose of discussing this matter, for the purpose of cooperating together, so that we could take advantage of the opportunity that existed to supply raw material to the peoples across the water, to enable them to rehabilitate themselves and to pay the enormous debts that were due to us. I said, if they could not get together and take the means necessary to assure exportation, could not they allay the fear in the minds and hearts of the men who had been ruined in 1873?

(The letter to President Wilson is here printed in full in the record, as follows:)

St. Matthews, *October 7, 1920.*

Hon. Woodrow Wilson, *Washington.*

My Dear Mr. President: We feel convinced that you do not realize the seriousness of the conditions now confronting the agricultural interests of America and the fact that it will be absolutely impossible for the producer to meet these conditions and at the same time supply the production which is necessary to our Nation, to say nothing of the greatly increased production which is absolutely necessary in order to reestablish normal conditions and promote commercial activity, thus bringing about peace and prosperity.

We have joined in a call with 22 of the largest agricultural associations from various sections of the Nation, to the farmers of America, for a conference at Washington, October 12 and 13, for the purpose of taking definite action concerning the adverse conditions now confronting them, and for the specific purpose of taking definite action regarding present marketing conditions of agricultural products, which, if maintained,

will bring a loss of hundreds of millions of dollars to the farmers of the United States and will result, as stated above, in forcing decreased production.

I am inclosing to you herewith a copy of the call which has been issued to the farmers of America.

The agricultural producers of our Nation, to a large extent, are forced to-day to sell their products below the cost of production for the reason that, for some of our most important staple crops, they are unable to gain access to the markets of Europe, where there is a pressing demand for these products.

A large part of each year's staple crops must be carried along during the year until needed for consumption. Credit to do this must be given to the middlemen hoarders or to farmer producers. The farmers' difficulty in securing credit to hold their crops until needed for consumption is largely responsible for the slump in prices of staple crops, though increased freight rates are also an important factor.

A recent investigation shows that the reduction in the average prices received from July 1 to September 1, this year, by producers of the United States for wheat, corn, potatoes, apples, cotton, and beef cattle would mean a loss to the producers of $1,782,375,550.

We are especially anxious to hold a conference with you and with the members of your Cabinet (at the most convenient hour to you during this convention of the farmers of America) for the purpose of discussing with you and your Cabinet members, the conditions which are seriously threatening the agricultural life of America. However, we wish it distinctly understood that we do not ask, nor do we expect, any especial consideration or privilege.

Nature seems to have taken a particular care to disseminate her blessings among the different regions of the world with an eye to their mutual intercourse and traffic among mankind, that the nations of the several parts of the globe might have a kind of dependence upon one another and be united together by their common interest. The care of our national commerce redounds more to the riches and prosperity of the public than any other act of government.

Congress created the War Finance Corporation and provided a fund of $1,000,000,000 to be utilized for the purpose of promoting our commerce. This corporation has failed to function. Hence, to-day we are suffering on account of our inability to enter the channels of foreign commerce, while the nations of Europe are suffering on account of their inability to secure our raw material.

In addition to this, we are suffering on account of restrictions of credits and on account of a policy of deflation. Most assuredly, history will repeat itself if deflation is started on agriculture, the foundation of commerce, and the effect will be disastrous. Deflation must of course be based upon production. Following the World War, it can only come as a result of an enormously increased production. We are forced to bear the burden of enormously increased transportation charges and greatly increased taxes, due to the World War. We are compelled to meet the enormously increased scale of wages. Due to these facts, the cost of agricultural production has enormously increased. All of this has not only brought to us stupendous losses, but has brought us face to face with a most serious condition concerning future production.

The revolutions of time furnish no previous example of a nation shooting up to maturity and expanding into greatness with the rapidity which has characterized the growth of the American people. The World War has made the United States a world power, the controlling factor in world affairs. The die is cast. There can be no retreat, no turning back. The opportunity for world supremacy in commerce has been knocking at our door. The products of our fields, mines, forests, and factories should have access to world markets. Our Nation should be the champion of the freedom of the world, which freedom can only be secured and promoted through intense commercial activity, world-wide. Commerce tends to wear off those prejudices which maintain distinction and animosity between nations. It unites them by one of the strongest of all ties—the desire of supplying their mutual wants. It disposes them to peace, by establishing in every State an order of citizens bound by their interest to be the guardians of public tranquillity.

We are to-day treading in the same steps that other historic nations have taken and regretted. Agriculture is the foundation of commerce and civilization. Throttle agriculture and commerce and civilization will perish. Throttle commerce and you will damn civilization. It is only as a result of intense commercial activity, world-wide, that it will be possible to bring peace and prosperity. There is need for an enormously increased production from the fields, the mines, the forests, and the factories of America for the purpose of upbuilding, through the only channel through which we can secure and promote peace—commerce—the higher civilization which should come as a result of the fearful sacrifices of the World War.

This request is being made in behalf of the various associations of America who have signed the inclosed call for the convention in Washington on October 12 and 15.

Assuring you that your attention and reply will be highly appreciated, I remain,

Respectfully,

J. S. WANNAMAKER,
President American Cotton Association.

In reply to this letter that I wrote to President Wilson—and, gentlemen of the commission, our association is nonpolitical and I am not touching on political subjects at all. In reply to this letter I wrote to President Wilson I got this information:

That the Congress in its wisdom had created the War Finance Corporation for the purpose of exporting American products; that it was going to function for one year after the ratification of peace.

That showed us there was going to be exports.

Then I got a letter from Secretary of the Treasury Houston, in which he said that he saw no reason or necessity for calling people to Washington.

As the result of this information that came from Washington and the information we had had—and I personally had talked with the chairman of the commodity side of the peace conference, and had talked with members of the commission—as a result of the information I had, which was first hand and I knew to be correct, I could not conceive that there would be any human possibility whereby the people of Europe would not be permitted to get our raw products, thereby giving them an opportunity to rehabilitate themselves and to pay their debts.

Therefore we withdrew the proposition to reduce the acreage, and the largest acreage was planted that was ever planted.

Now, gentlemen of the commission, I want to say that we have never been so foolish as to think that an entire staple crop can be held for any price at any time. But in 1919, when the world's cotton conference met in New Orleans, in October, about which I have told you, they recommended that based upon the price of the manufactured product and based upon cost of production the producer ought to get 30 cents a pound for his cotton.

Cotton was then bringing 18 cents a pound, and some was sold at that. In 1919 they renewed it when cotton was about 22 cents—not that anybody had to hold it. We had upon our committee some of the leading bankers of the South. We had the leading business men. We were trying to apply to the situation skill and common sense. Two-thirds of the American cotton crop is sold within a very short time after the harvest month. As a result of conditions in 1873—and the South has never gotten over those conditions—it has never got to the point of knowing what cotton is worth. The producers have sold about as fast as the crop was produced. And the American cotton crop is grown largely by women and children.

As a result of this conference in 1919 we recommended that based upon cost of production, the world's supply and needs, that we ought to get 40 cents a pound for cotton. Some people who held their cotton got 40 cents for it. But nobody had to hold it. They were not forced to hold it. It was given out as a matter of information.

Now, we get down to the 1920 period. I thought I had thrown around the situation every precaution. I thought we were safely going through the period. I could not conceive that the American

Government would permit a change in finances that would catch the producers between the time of production at enormous expense and of selling at a low price. I thought the producer would be able to get back what he put in it and a reasonable profit. A large acreage was planted. We were still carrying low-grade unsalable cotton.

In March I got a letter from Secretary of the Treasury Houston, which I am going to read to you. The letter said, concerning exportation of American raw products:

The policy of the Government is opposed to exportation of these products, as it would result in maintaining present high prices here, prices that would subsidize the producer, and it will result in increasing the indebtedness of European countries either to private citizens of America or to the Government.

I realized what was going to happen when I got that letter. We were in a very serious predicament, not only the cotton producers but the producers of agricultural products generally.

The CHAIRMAN. What was the date of that letter?

Mr. WANNAMAKER. It is dated March 13, and I will read it into the record.

(The letter referred to is here printed in full in the record, as follows:)

THE SECRETARY OF THE TREASURY,
Washington, March 13, 1920.

DEAR MR. WANNAMAKER: I received your letter of March 10, which I have read with great interest. I do not think it would be wise for the President to issue a call to the business interests of America to meet in Washington for the purpose of discussing, arranging, and putting into force and effect volunteer means whereby credits could be extended for the purpose of affording a means of obtaining our products. I am opposed to Government interference in such matters as this, and I do not think that the producers of this country need to be summoned by the Government to consider measures to be adopted in their own interest. The Government's summons is sure to suggest the hope of Government aid, directly or indirectly. It is now more than 15 months since the cessation of hostilities and high time that our business men resumed the old practice of thinking and acting for themselves and on their own initiative. Indeed, they have been doing so as is evidenced by the enormous exports which we have made and are making to Europe and the enormous credits which have been extended for the purpose. In his annual report Secretary Glass said:

"Men must go back to work in Europe, must contribute to increased production. The industries of Europe, of course, can not be set to work without raw materials, machinery, etc., and to the extent that these are to be secured from the United States the problem of financing the restoration of Europe belongs primarily to our exporters. Governmental financial assistance in the past and talk of plans for future Government or banking aid to finance exports have apparently led our industrial concerns to the erroneous expectation that their war profits, based so largely on exports, will continue indefinitely without effort or risk on their part. To them will fall the profits of the exports and upon them will fall the consequences of failure to make the exports. So soon as domestic stocks, which were very low at the time of the armistice, have been replenished, those industries which have been developed to meet a demand for great exports, paid for out of Government war loans, will be forced to close plants and forego dividends unless they maintain and develop an outlet abroad. The industries of the country must be brought to a realization of the gravity of this problem, must go out and seek markets abroad, must reduce prices at home and abroad to a reasonable level, and create or cooperate in creating the means of financing export business."

Very truly, yours,

D. F. HOUSTON.

J. S. WANNAMAKER, Esq.,
President American Cotton Association, St. Matthews, S. C.

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The CHAIRMAN. I think it of considerable consequence that the sequence of time should be made very clear in the discussion of these questions, so that a conclusion can be arrived at by members of the commission with a very clear conception of the sequence of events as they took place. I merely make that statement because I hope as you go along you will tell us when these various conferences took place, and the dates of the letters to which you refer, and that so far as possible the letters and various statements will be put into the record, so that the members can judge for themselves as to what the conditions at the time were.

Mr. WANNAMAKER. I am going to carry out your suggestion, and for the purpose of saving time I will read this file consecutively as I come to it. But I wanted to make a general statement first.

The CHAIRMAN. I do not want to interrupt your line of argument but am merely stating that at some time I think these papers and record should go into the record in regular sequence, so that we may have the matter clearly before us.

Mr. WANNAMAKER. I am going to take up the file as I come to it. I want to reach some circulars issued by the Federal Reserve Board—but I want to make a statement before I read this circular—that I take the position we have never had a buyers' strike; we have had a buyers' panic. I take the position that this panic has been practically incubated and hatched as the result of the unceasing propaganda that has been sent out to destroy confidence, sent out in the press propaganda sent out to convince the public that prices had to go lower, and finally reached the stage where everybody wanted to sell and nobody wanted to buy.

Representative FUNK. Propaganda sent out by whom?

Mr. WANNAMAKER. I will first take up the Federal Reserve Board and if I am not out of order I will state right here that I never fall out with any man because he differs with me. I have frequently attacked their position, and I attack it to-day—not attacking the law particularly, but the way it has been administered—but I am going to make certain suggestions in regard to amendments. I want to ask this commission, in seeking information upon which to base its findings as to the Federal Reserve Board, to ask that board to furnish you in detail with a statement as to the amount paid by them for publicity, both through newspapers and otherwise, both as regards the Federal Reserve Board and the various regional reserve districts—including the amount paid for publicity correspondence, and that they show that information for the various reserve districts and for the board itself over a period of 18 months. I would also like to ask this commission to inquire——

Senator HARRISON (interposing). Have they publicity men employed?

Mr. WANNAMAKER. Am I compelled to answer that?

Senator HARRISON. I would like for you to answer; you have got my curiousity aroused now.

Mr. WANNAMAKER. I will answer. Yes; it is my impression that they have them employed, and they had them employed, and that they are well paid.

The CHAIRMAN. Are you speaking now of the Federal Reserve Board?

Mr. WANNAMAKER. Yes; and I refer you to the recent items in the papers, in New York. I refer you to one of last Wednesday, which practically reads—I can almost repeat what it said—it speaks of the wonderful service performed by them, and that it shortened the war. It says it really has saved money under those conditions; rendered a wonderful service, and by that wonderful service prevented a panic. I talked to one business man who stated to me that he had passed through several panics, and he would rather have ten panics than one drastic artificial deflation. It says this committee to-day is for the purpose of creating a second inflation; that the Federal reserve bank—if the steps are taken that result in the lowering of the rediscount rates—if that should happen to the New York banks, will the New York banks stand for it? We do not want second inflation. I will take that up more in detail. In 1919, in the annual report of the Federal Reserve Board made at the close of the year 1919; made by the president of the Federal Reserve Board, this statement is made [reading]:

It must never be forgotten that productive industry is profoundly affected by credit conditions. Modern business is done on credit. One of its life-giving principles is credit. The mood and temper of the business community are deeply affected by the state of credit, and may easily be disturbed by ill-considered or precipitate action. A system of credit control must always be judged by what it does to maintain a healthy condition of mind on the part of all sections and classes of the producing community. The ultimate test of the functioning of a credit system must be found in what it does to promote and increase the production of goods.

The ultimate test of the functioning of a credit system must be found in "what it does to promote and increase the production of goods." [Continuing reading:]

True in general, the truth of this observation deserves to be particularly emphasized in the present deranged state of world industry and world trade when production is the crying need of the hour everywhere.

Too rapid or too drastic deflation would defeat the very purpose of a well-regulated credit system by the needless unsettlement of mind it would produce and the disastrous reaction that such unsettlement would have upon productive industry.

This is going into 1920. [Continuing reading:]

Radical and drastic deflation is not, therefore, in contemplation, nor is a policy of further expansion. Either course would in the end lead only to disaster and must not be permitted to develop. The credit situation in the United States is at the bottom sound and safe. Our economic and financial position is essentially strong. There need be no occasion for apprehension as to our ability to effect the transition from war-time to peace-time conditions if reasonable safeguards against the abuse of credit are respected. There is, however, no need for precipitate action or extreme measures.

This is in the annual report of the president, in the fall of 1919, when we were considering reducing production.

The CHAIRMAN. What is the date of that circular?

Mr. WANNAMAKER. This is not dated, but it is in the annual report of 1919.

On January 6, 1920, in a circular addressed "To the president of the banking institution addressed," is this paragraph [reading]:

It should not be overlooked that Federal reserve banks hold all of the legal reserve of the member banks of the country and are the final source of credit supply. As reflecting the credit demands upon eastern banking institutions, it is further to be noted that the reserve banks of the East have been showing the lowest percentages of reserve in the system, and that these banks have rediscounted freely with other reserve banks.

This, then, is the crux of the situation. We have expanded bank credit up to and beyond the limit to which we should go, and it is responsible in a large degree for high

prices. The safety valve is popping. Many banks appear to feel that they are compelled to borrow to extend to their customers the amount of credit called for by them. This can be overdone and is being overdone.

This competition for and use of credit should, therefore, be restrained by banking institutions, and everywhere all over the country the campaign should be instituted for an increase of production by existing equipment and labor. And since banking institutions are brought into such intimate contact with those who apply for credit, this principle should be presented to them with all the force at command.

Gentlemen, I want to call your special attention to this circular. Here is a circular that gave us a great deal of consolation in the early spring of 1920. In fact, these are the things they sent out; here is one on January 15, 1920 [reading]:

The end of the year brings a repetition from every section of the reports of unprecedented prosperity. Farmers, merchants, manufacturers, and bankers have all had record years. Particularly is this true of the cotton and tobacco sections. Fabulous prices for these crops have filled the pockets of the farmers with money, with the result that merchants have enjoyed a phenomenal trade. There has been a demand for practically everything that can be made on the farm or in the factory. Manufacturers, jobbers, wholesalers, and retailers are all busy, the volume of trade being only limited by supplies. The holiday business is reported as remarkably good, and many stores show practically clean shelves. Collections were "never better" and many old accounts have been liquidated. Failures are still very limited in number and liabilities in volume.

Now, underscored in heavy type is this [continuing reading]:

The unsold portions of farm products are in good demand and prices running high.

With that information before you, could you conceive of any necessity of reducing your production, or any measure of a policy being put on that would tax you between the time that you planted and the time that you harvested and marketed?

The CHAIRMAN. At this time the Federal reserve bank had already begun to increase the rediscount rates, had they not?

Mr. WANNAMAKER. At this time?

The CHAIRMAN. Yes.

Mr. WANNAMAKER. Very slightly, at this time. I find this situation at that time of the year, at the time of high prices they had interest rates that were very low, but as soon as they put on these high discount rates, and demanded more collateral, the prices began to go down. I will give you the record of that a little later on.

Further on in that same circular it is stated [reading]:

The deposits and resources of the banks in the district have reached unprecedented totals, but inflated prices have brought correspondingly heavy demands for loans, with the inevitable result of reduced reserves. It has been found necessary to raise the rates of discount of the Federal reserve bank and to call attention to the necessity of conserving credit in order to correct these conditions. This policy has been cordially approved by the banks of the district, and a policy of cooperation in carrying it out has been generally adopted. It is anticipated that satisfactory results will be attained without any material financial disturbance.

That was on January 15, 1920.

Now, on April 13, 1920, we have this [reading]:

The very title of the Federal reserve act suggests answers to some of the chief points in your letter, which you specify as defects:

"An act * * * to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States."

A little further on in the same circular is this [reading]:

There is no practical and effective way to prevent expansion from becoming too dangerous except through discount rates, and that is the purppse in raising rates—not to make money.

Not to make money, but for the purpose of reducing inflated prices.

And a little further on in the same circular he says [reading]:

You speak of the money which the Federal reserve banks are making. From my point of view, and I am sure the general point of view, it is profoundly to be regretted that the conditions are such as to compel the Feseral reserve banks to lend such an enormous amount of money (both upon Government securities and upon commercial paper) to make such large profits possible. Possibly you omit to take into account the fact that the Federal reserve banks are not making their money chiefly out of the reserve deposits of the banks. Their note issues, which are a distinct function of the Federal reserve system and which are, of course, capital to the reserve banks, as their deposits are, amount to over $3,000,000,000; whereas their reserve deposits are only about $1,800,000,000. Up to the present time the profits of the reserve banks over and above dividends paid to members, have been used almost wholly to strengthen the Federal reserve system, and have been added to accumulated reserves to increase the lending and the note-issuing power of the system, all for the ultimate financial benefit of member banks and the business of the country.

On April 26, 1920, is this statement [reading]:

Every Federal reserve bank shall have power—

(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business, and which, subject to the approval, review and determination of the Federal Reserve Board, may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal reserve bank to the borrowing bank.

Further on in that same circular is this [reading]:

These increases in rates have had the effect of halting expansion for the time being, but it is realized that still further checks may be needed to exercise a needed restraint upon those banks which either do not recognize the danger of continuing to expand their credit, or, recognizing it, feel the pressure of necessity to grant additional credit in order to increase production, which is the foremost need of the country and the world.

That is on April 26, 1920.

On May 15, 1920—It is getting kind of changed now—he says this [reading]:

The unrest and uncertainty in commercial fields, mentioned last month, continued during April and spread to the consumers, partly as a result of the agitation against high clothing costs. The overall movement in itself did not prove very popular, but it undoubtedly set many people to thinking and to analyzing their expenditures with a consequent widespread effect on business. Large numbers of people were led to curtail their purchases and encouraged to compare prices and values more carefully than they had been doing for months. Merchants sensed this caution on the part of many customers, and, as we write, there seems a general movement to unload high-priced stocks quickly through general price reductions. In many of the cities of the district leading stores have announced substantial reductions in all lines, 20 per cent cuts predominating, and this movement has spread to nearly every type of store, except those handling food. It is too early to forecast the results that will come from this action by the merchants, but conditions are clearly uncertain, and this fact (together with merchants' reductions) will, it is thought, tend to further a general downward readjustment of prices.

Representative FUNK. You use the word "the district" there; do I understand that that circular is issued by the Atlanta Federal Reserve Bank?

Mr. WANNAMAKER. I am reading from both. This is from Mr. Caldwell Hardy, Federal reserve agent of the Federal Reserve Bank of Richmond. I have also been reading from these other circulars. I have tried to get a complete file, and you can get these.

Here is a general statement issued by the Federal Reserve Bank of Richmond. In it are these statements [reading]:

Official bank rates now in force in the leading countries are higher than at any time during the present century, except during the war panic week at the beginning of August, 1914. Only within the last few weeks the official rate in Italy has been raised from 5 to 5½, the Bank of France rate from 5½ to 6, and the Bank of England rate from 6 to 7 per cent.

Every effort should be made to stimulate necessary production, especially of food products, and to avoid waste. Planting operations in many sections have been delayed because of adverse weather conditions, and should there be an inadequate yield of crops this year the necessity for conservation and conservative will be accentuated. War waste and war financing result inevitably in diminished supplies of goods and increased volume of credits. The normal relationship between the volume of goods and the volume of money and credits thus unsettled can be restored in either of two ways; one, the drastic method of contraction of credit, and the other, by far the more desirable way, increased production. In the same way progress toward the restoration of the normal relationship may be made by reducing credit more rapidly than production is diminished, or by increasing production at a greater rate than credit is expanded. If it should prove impracticable in the existing circumstances to increase essential production, then we must through economy in consumption and through moderation in the use of credit check the tendency toward a further widening of the margin between goods and credit.

And further on in that same circular is this statement [reading]:

The banks should lean less heavily upon the Federal reserve banks, and rely more upon their own resources. Unnecessary and habitual borrowings should be discouraged, and the liquidation of long-standing nonessential loans should proceed. Drastic steps, however, should be avoided and the methods adopted should be orderly. Gradual liquidation will result in permanent improvement, while too rapid deflation would be injurious and must be avoided.

And further on in the same circular is this statement [continuing reading]:

The recent amendment to paragraph (d) of section 14 distinctly authorizes the Federal reserve bank on its own account, without reference to action taken by any other Federal reserve bank, to establish a normal discount or credit line for each member bank, and permit the imposition of graduated rates on discount lines in excess of the normal lines.

Now, I call your attention to a circular of May, 1920. In that circular is this statement [reading]:

Dun's Review reports 41 failures in the fifth district during May, 1920, against 30 during the same month last year, with liabilities of $1,577,684 this year against $491,740 in 1919. This is a much poorer record than for April, 1920, when reports showed 14 failures with liabilities of $88,450. With a market showing signs of market depression, because of the greater caution displayed by the public in making purchases, it is not strange that failures should increase among the border-line firms; in fact, it is probable that the number will be swelled materially if there develops any special tendency in the markets toward lower prices.

The CHAIRMAN. Mr. Wannamaker, I think we shall have to suspend at this time until about 1 o'clock this afternoon.

The commission will stand on recess until 1 o'clock this afternoon.

(Whereupon, at 11 o'clock and 25 minutes a. m., the commission stood on recess until 1 o'clock p. m. of the same day.)

AFTER RECESS.

At 1 o'clock p. m. the commission resumed its session, pursuant to the taking of recess.

The CHAIRMAN. The commission will come to order. Mr. Wannamaker, you may resume.

STATEMENT OF MR. J. S. WANNAMAKER, PRESIDENT OF THE AMERICAN COTTON ASSOCIATION—Resumed.

Mr. WANNAMAKER. Mr. Chairman, there is one question I asked this morning, and I want to hand it in in writing. I am suggesting and asking that this commission ascertain from the Federal Reserve Board the following:

The commission is requested to ascertain the amount paid for publicity, both newspaper publicity and otherwise, by the Federal Reserve Board, by the various districts during the last two years, showing in an itemized statement the amount paid in each district and the Federal reserve separate; also showing the amount paid for newspaper publicity and other publicity separate. Also showing the names of newspaper representatives or publicity men employed by the Federal Reserve Board or the various districts, giving the names and stating salaries.

Second. I request the commission to ask the Federal Reserve Board the following question:

Ask for amount of acceptances being carried through the Federal reserve banks under rediscount of member banks from foreign countries, giving the amount and the name of the bank, especially for acceptances from South America, the Philippine Islands, and other countries, the amount as carried now and the amount that has been handled during the last two years, showing the bank said paper is being rediscounted for and for which the Federal Reserve Board is carrying same.

Representative SUMNERS. Mr. Wannamaker, what is the object of requiring that last information?

Mr. WANNAMAKER. For this reason, that the Philippine Islands and South America, I understand, secured money from the Federal reserve district on rediscounts on cattle and agricultural and other business enterprises at the very time that the agricultural interests of this country were in desperate need of money and could not secure it.

Representative SUMNERS. At the time that you indicated, if you are not coming to it later, I would like to have you give us what information you have with reference to the exercise of the rediscount privileges of member banks tendering eligible collateral.

Mr. WANNAMAKER. I do not know that I just get your question.

Representative SUMNERS. Either at this time or at a later time I would like to have what information you have with reference to the Federal reserve banks declining to accept from member banks——

Mr. WANNAMAKER (interposing). All right; I understand now what you want. I will be glad to take that up specifically.

Representative SUMNERS. Very well.

Mr. WANNAMAKER. The amount of rediscounts shown by the Federal reserve system as being extended on agricultural paper is very misleading; the natural interpretation put upon this is that this rediscount is for loans made by the member banks to farmers; however, an examination of the borrowers will bring to light the fact that such is not the case. A large proportion of the rediscount agricultural loans shown by the Federal reserve districts is for loans by member banks to merchants, brokers, factors, manufacturers, and various other lines of industry. I would urge that the commission request the Federal Reserve Board to give detailed statement showing the total amount of rediscounts at present extended through the various Federal reserve districts on agricultural paper to farmers; also that

they furnish a detailed statement showing the total amount of rediscounts made through member banks to farmers during the course of each of the calendar quarters for the past 18 months. Such information will bring to light proof positive that the farmer has suffered fearfully on account of his inability to secure absolutely necessary financial assistance.

Mr. Chairman, I want to read a few quotations from the testimony of the governor of the Federal Reserve Board for the purpose of showing the effect that it had upon the country in either bolstering up or destroying confidence. But before I do that, Mr. Chairman, I want to finish these quotations that I started on this morning.

In circular No. 98, under date of July 7, 1920, from the Federal Reserve Bank of Richmond, there is the following statement [reading]:

The reserve banks do not make credit conditions, neither are they responsible for current interest rates demanded for the use of capital. These are brought about by variations in fundamental conditions, involving the scarcity of floating capital, the current additions to capital from savings, the volume and cost of production of industry, and other factors.

Farther on in that same letter is the following [continuing reading]:

Many banking institutions, and many of their customers as well, have expressed a feeling of hardship that the discount rates of the Federal reserve banks have been raised. As stated previously herein, the Federal reserve banks are in no wise responsible for the creation of current interest rates and credit conditions. They rather reflect these conditions. It has been argued that the rise in reserve bank rates has not accomplished deflation, and that, therefore, it has done no good but has only worked a hardship upon those who were compelled to borrow under any conditions. At the same time, it is stated on all sides that it is more difficult to borrow. There is a contradiction in terms here. The rise in rates has checked borrowing or expansion, as it was intended to do. Deflation will come gradually, as it was intended it should come. Then again, the time is coming in the harvesting and marketing period, when the necessity of borrowing will be still more urgent. Preparation for that period has to be made.

Further on in that same letter is the following statement [reading]:

Whatever discount rate banks may have had to pay upon borrowed money, both their resources and earning power were very greatly increased as the result of conditions arising from the war and through the operation of a stable banking system. It is true that the discount rates of the Federal reserve banks have only recently been raised appreciably, although it has been a contention on the part of many sound thinking economists and many experienced bankers that rates should have been raised immediately after the declaration of the armistice to prevent injurious expansion, which many foresaw, and to which we are supposed to owe in great measure the high prices of commodities and increases in the wages of labor, without general benefit and with consequent country-wide unrest.

Further on in that same letter is the following statement [continuing reading]:

This amount has since been considerably reduced, but it is manifest that the reserve banks could not, if the policy were a wise one, maintain a low discount rate, much below the market, on war paper or any other paper. They would, as a matter of course, be filled up with such paper, from all sources, for promiscuous use, including borrowing purely for the purpose of lending at a profit, as a matter of course, and little would be left available for commercial loans. The policy would encourage and promote expansion to a degree which would invite catastrophe.

Now, as to the effect of the Federal reserve bank discount rate upon the price of Government securities: It has been contended by some that the cost of carrying Government bonds has been the direct cause of throwing hundreds of millions of these bonds upon the market with consequent depression in price. It is set forth in the foregoing that the amount of loans to customers by member banks of the Federal reserve system was $17,000,000,000, and of this sum they were borrowing from Federal

reserve banks for the purpose of carrying Government bonds and Treasury certificates only $1,800,000,000 at the maximum, and at the present time only about $1,450,000,000, including all Treasury certificates.

Further on in that letter is the following [continuing reading]:

> It is preposterous to contend that the Federal reserve bank discount rate is responsible for or has any material influence upon the price of Government bonds. It may well be recognized that if the surplus incomes of the country which formerly went into investments or back into business in some form are taken in taxes from potential investors for the building of navies and the support of armies and the maintenance of host of public employees, the volume of capital which can be put into productive industry is reduced by so much. Any merchant or manufacturer will tell you that plus profits must go into business to expand it. It is the way all sound business s expanded—not by borrowing. Continue to take excess profits in taxes and what ust be the result?

Further on in the same letter is the following [continuing reading]:

> The accusation is not infrequently made by some thoughtless and inexperienced ople that the policy of the Reserve Board and reserve banks will bring on a busi- crisis and depression. It is intended to prevent these very things, and if dis- etly pursued will prevent them. There is, therefore, no occasion for uneasiness, t every cause for confidence. But the people must come to their senses and act dently and not forget their experiences under former banking practice. They er failed in former times to get in trouble at fairly regular periods, about 10 years rt.
>
> It was the purpose of the establishment of the Federal reserve system to exercise upervision over the banks of the country and the expansion of credit, which was king in former banking practice; and it is in the exercise of this power, based n all banking experience, that the Federal reserve banks are acting and must tinue to act.

In a circular compiled August 16, 1920, by the Federal Reserve nk of Richmond, Caldwell Hardy, Federal reserve agent, circular titled "General business and agricultural conditions in the fifth deral reserve district for the month of July, 1920," there appears is statement [reading]:

> Crops: Due to the extreme backwardness of the crops as a consequence of the late ing, it is difficult to say with much assurance what the year's output will be in wing fields, but indications point to satisfactory yields in practically all lines. ernment reports predict a cotton crop of between twelve and thirteen million es, but much depends upon the weather conditions the balance of the season. lateness of the crop has delayed the usual fruitage, and also gives the weevil a ter opportunity to work serious havoc than he usually has, and much wet weather r a considerable section of the cotton belt has been favorable to weevil develop- nt. The crop looks well now, and with favorable weather will meet expectations, unless conditions are practically ideal from the present writing to the end of the son it is likely that the cotton yield will be disappointing. Realization of the vernment predictions, with last year's carry-over added, would probably bring out a decline in prices of cotton, this decline being already foreshadowed by a akening in both spots and futures during the past six weeks.

And later on in that same circular he says this, with reference to op movement (continuing reading):

> The Federal Reserve Bank of Richmond fully realizes the importance of rendering fullest possible measure of assistance within the limit of its resources to member nks for the purpose of properly marketing all crops grown in the district and is ing (and endeavoring to conserve) its resources for such purposes. On the other nd, it is the duty of every member bank in the district to cooperate fully in this servation and use of the volume of available credit and to see that no undue in in one direction shall be allowed to create an embarrassing shortage of credit in e other direction. A demand from one bank for a volume of credit out of all portion to the contribution of that bank to the credit resources of the district uld inevitably result in some other bank having to be content with less than its are.

There is always a seasonal discussion about whether crops are going to be successfully planted, followed by a further discussion as to whether they can be moved or not, but all such discussions are proven by experience to be academic, because the crops are always planted, always gathered, and always marketed, even if attended by some difficulties or restrictions. We have not only made the largest possible advances to our member banks out of our own resources, to assist them in financing agriculture and commerce, but we have borrowed $25,000,000 from other Federal reserve banks to increase the volume of credits extended them.

It is possible, as well as proper, for a Federal reserve bank to make the necessary advances for crop-moving purposes, while it would be neither proper nor possible for it to furnish all the funds that might be necessary to withhold crops from the market in order to force prices higher than might be considered natural. That is to say, higher than the prices which would obtain if the crops were marketed in a normal and natural manner and neither unduly held nor precipitantly sold. It is a specific requirement of the Federal reserve act that in making loans or advances to any particular member bank, for whatever purpose, a Federal reserve bank must also take into consideration the needs and requirements of all other member banks. The volume of credits extended to individual banks must therefore be governed by the law and the circumstances in each case.

We have always felt that farmers, in the long run, would best serve their own interests by marketing with reasonable promptness sufficient of their crops to liquidate the agricultural advances obtained for raising them. Such a policy of liquidation would enable the banks to furnish new credits for crop moving, until the products can be distributed to consumers and ultimate liquidation be secured. The early and gradual liquidation of the large volume of credits already extended by us to member banks and through them to farmers will therefore place the banks in a position to furnish credits for moving the crops to market.

If the farmers, instead of carrying home cash from proceeds of sale, will deposit such proceeds in their banks and draw checks for necessary disbursements, it will materially increase the resources of the banks, facilitate the movement of the crops, and thereby promote the best interests of the farmers themselves.

In a circular compiled September 15, 1920, by the Federal Reserve Bank of Richmond, Caldwell Hardy, Federal reserve agent, entitled, "General business and agricultural conditions in the fifth Federal reserve district for the month of August, 1920," appear the following statements [reading]:

In response to a request for a statement on business conditions in the fifth district during August we received 58 letters, most of which went carefully into the situation as the writers saw it. Of these letters only three were distinctly pessimistic, although a number of other correspondents state that business is disturbed, and puzzled as to future developments. Nearly all of the writers express confidence that basically conditions are sound, and believe that the readjustments being brought about are or the best interests of the country as a whole. Reports indicate improving conditions in labor fields and transportation, and evidences of a downward trend in many prices is spoken of with approval. Complaint of tight money is general, but on the the whole the efforts of banks to restrict loans to necessary work is commended. In a letter received from a large manufacturer in the district, a concern rated by commercial agencies at their highest figures, is found the following paragraph:

"Please allow us to likewise offer a few comments on another important situation. There has been considerable criticism in some of the papers on the Federal Reserve Board and banks, for restricting credits. It is our opinion that the only practicable way to prevent anarchy in this country is by a drastic curtailment of credits. It may be a very disagreeable duty on the part of the banks to pursue such a policy, but we do not know of a more patriotic, common-sense policy to stop inflation and general unrest, and we sincerely hope that such a policy may be pursued by the banks, even though it should cause some hardship."

Further on in the same circular appear the following statements [continuing reading]:

Crops.—The month of August was exceptionally wet and much damage was done to the chief crops in this district. Cotton needs much sunshine and warm nights, but rain fell nearly every day in August. Reports indicate that the cotton weed is large, but it is sappy and unfruited, and a very late frost will be necessary if a normal yield is to be gotten. Spot cotton is selling at about 30 cents with very little demand for

low grades, of which much of the new crop promises to be. Cotton seed is selling around $30 per ton as compared with a price last year ranging from $75 to $90. The tobacco crop is discussed elsewhere.

And further on with relation to foods he says this [continuing reading]:

Foods.—A larger manufacturer of foodstuffs writes:

"Our business is exclusively with wholesale grocers. As the season has advanced we have found an increasing conservatism on the part of this trade and a disinclination to buy until forced to do so by depleted stocks. This is largely brought about by the great losses caused through declines in sugar, coffee, tea, flour, and other markets. Some of our customers have been very seriously injured financially through the slump in the sugar market. All of this has resulted in the slowing up of trade."

Further on in the same circular he says this concerning tobacco [continuing reading]:

The large buyers of tobacco have shown an inclination to buy the new crop cautiously, and four or five reports indicate that most manufacturers find themselves well stocked up with last year's high-priced tobacco, which they desire to work off before taking on additional stock. It appears that the high prices realized for tobacco last year caused the farmers to plant an increased acreage this year, from which fair yields are being gathered, and this condition, together with the lessened foreign demands and good stocks carried over by domestic manufacturers, has brought about a perfectly normal decline from the top prices of the past two years.

Since manufacturers are still making up goods from the 1919 crop, there has been no decline in prices over the counter for cigars, cigarettes, or tobacco.

Further on in the same circular under the head of "Miscellaneous" he says the following [continuing reading]:

Miscellaneous.—Dealers in musical instruments report good prospects for a normal fall business. The furniture manufacturers are not securing their usual orders, and report that the retail dealers are unsettled and afraid to buy at present prices. Wool and hide markets are very dull, with decidedly lower prices prevailing. The hardware business is good. Vehicle manufacturers are getting a fair number of orders, and if cotton and tobacco turn out well their business will be brisk. Box and shook manufacturers report fairly good demand, but less than two or three months ago. Prices are off some, in keeping with lumber.

In a "Letter to the member banks of the Federal reserve system in North Carolina and South Carolina," by John F. Bruton, director for North Carolina, and David R. Coker, director for South Carolina, under date of September 22, 1920, appears the following statement [reading]:

Many sections had last fall enough money in hand to operate the farms and businesses for 12 months, but wasted a large part of it and then went to the banks for abnormal advances on the assumption that high prices would be permanent. The agricultural and manufacturing sections of North Carolina and South Carolina could have become financially independent during the past three years if their people had shown sound business judgment and held on to a fair proportion of their profits, and the banks should lose no opportunity to call attention to this fact, in order that our people may profit from the bitter experience through which we are passing, and must pass because of it.

In a statement compiled October 15, 1920, by the Federal Reserve Bank of Richmond, Caldwell Hardy, Federal reserve agent, entitled "General business and agricultural conditions in the fifth Federal reserve district for the month of September, 1920," appear the following statements [reading]:

Crops.—From all over the district come reports of bumper crops. Cotton has apparently turned out well, except in the boll-weevil section of South Carolina, and the tobacco crop is larger than last year's yield. The corn crop is one of the largest on record, and is of good quality. Fruits turned out well, as did all other farm products. In common with many other commodities, prices in farm products have declined

sharply, and farmers are dissatisfied with the returns they are getting. Spot cotton brought an average of 22.68 cents per pound on October 9 on 18 markets in North Carolina, about 7 cents less than the price secured four weeks previously, but cotton seed brought prices ranging from $36 to $45 per ton, averaging about $40, as compared with $30 per ton a month ago, all prices being for carload lots.

In a statement compiled December 15, 1920, by the Federal Reserve Bank of Richmond, Caldwell Hardy, Federal reserve agent, entitled, "General business and agricultural conditions in the fifth Federal reserve district for the month of November, 1920," appear the following statements [reading]:

Business in wholesale and manufacturing fields is inactive, and considerable unemployment is reported as a result of many shutdowns or restrictions in running time in factories of various kinds. Building operations are at a minimum. Prices of farm products have continued to decline and collections are, as a result of these conditions, very slow except in city retail establishments. But there are signs of improvement, though it is impossible to say when stability in general conditions will be appreciably felt. Among the hopeful signs are the reductions in stocks of high-priced goods by retailers, and as a consequence the probability of their reentering the markets sooner or later for new goods, which should open the way to improving conditions in wholesale and manufacturing lines. Building material dealers have accumulated some stocks from which orders can be filled quickly when general conditions encourage new construction work. Transportation service is steadily improving, both in express and freight movements. Labor adjustments are apparently being made in a number of fields, and without serious friction or misunderstanding, which speaks well for relations between employers and employees. Prices of the necessities of life have fallen, the market being distinctly a buyers' instead of a sellers'. Retail trade is keeping up remarkably well, as are collections in city stores. It is to be taken into account that although farm products have declined in price, the yields for 1920 have been exceptionally large, in many cases close to record crops having been produced, and the Nation as a whole will be benefited.

Further on in the same circular is the following statement regarding cotton [continuing reading]:

Cotton.—The decline in the market for spot cotton continued during most of November, but was temporarily checked early in December. In our October report we stated that cotton had declined from the high figure of 43 cents last spring to around 17 cents at the close of October. On Monday, November 15, the average price quoted by the Bureau of Markets, Department of Agriculture, for 22 towns in North and South Carolina was 17.43 cents per pound, middling basis; but the quotations given for the same places on Saturday, December 11, averaged 14.41 cents. Even at this figure there was little active market, and sellers complained that they were unable to sell their cotton at any price unless it was of superior grade. Local mills in the Carolinas have been out of the market for some time, and exporters have been unable to make arrangements for shipments to European countries in large quantities. Cotton farmers are generally holding their crops off the market, hoping for advance in prices later in the season, and many new warehouses have been hurriedly constructed for storage purposes. The last Government report, issued recently, estimates the 1920 crop at more than 12,900,000 bales, exclusive of linters. In the fifth district, the North Carolina crop is good, and the South Carolina crop is exceptionally large, in spite of the havoc played in the coast counties by the boll weevil. There is much talk of restricted acreage in 1921.

Further on in the same statement is the following, regarding clothing and shoes [continuing reading]:

Clothing and shoes.—Clothing and shoe merchants have followed the general downward movement, and have reduced prices on many articles and lines during the past two or three months. The reductions began in a modertae way about the middle of September, but have gained headway, and to-day it is possible by careful selection to buy an outfit of wearing apparel at something like 25 per cent less than was possible three months ago.

Practically all articles used in dress have been reduced to some extent, the chief reductions being in suits, shoes, shirts, and minor fittings such as linen collars, silk ties, etc. One of the chief reductions being in boys' clothing, which had been excessively high during the recent period of elevated prices.

Further on in the same circular is the following statement regarding building materials [continuing reading]:

Building materials.—Prices of building materials on the whole have declined during the past two or three months, but the decline has not stimulated buying to any great extent. Winter is an unseasonable time for beginning new construction work, and besides, consumers are waiting to see whether further declines are coming or not. In addition, labor costs have as yet decreased little, except in the increased efficiency of the laborers, and money for investment in the improvement of real estate is distinctly scarce. With the opportunities for investments in high-grade securities at prices that will yield returns fully as high or higher than those that can be gotten from improved realty, there is little incentive for the man with surplus funds to invest in new construction work, especially when the materials market is unsettled.

From a statement issued by the Federal Reserve Bank of Richmond, Caldwell Hardy, Federal reserve agent, entitled "General business and agricultural conditions in the fifth Federal reserve district for the month of December, 1920," are the following statements [reading]:

December witnessed further developments in the widespread efforts to liquidate funds tied up in stocks carried by jobbers and retailers, a movement begun early in the summer of 1920 and continued steadily since that time. Material reductions in stocks have been made by practically all retailers, and jobbers' stocks are reported as low. Manufacturers were inactive during December because of the hesitancy of retailers in placing advance orders in the face of uncertain prices, and considerable unemployment developed. Some wage reductions have been made, notably in the textile field. Construction work continues unimportant, particularly in residence building. The department stores report larger sales during the holidays, but jewelers and dealers in some other specialty lines report sales as fair only. There were fewer purchases for high-priced goods reported, though the number of sales made during the month compares favorably with the number made in December, 1919.

But in spite of the hesitating attitude of business during December the situation at the opening of 1921 is considered as improving by the great majority of correspondents from whom we secure data. Stocks on hand have contracted in value, but reports indicate that by conservative purchasing and intelligent charging off of depreciation or losses most merchants have passed the crisis and are safely preparing for future contingencies. Employers and employees have in many cases consulted and reached a basis upon which it is thought both can prosper. Transportation facilities have gradually improved and service is now better than it has previously been since 1916. The farmers, who are harder hit than any other industrial group in the fifth district, are reported as cooperating in plans to aid in exporting their surplus products and are preparing to make the next crop more economically than the 1920 crop. Of course, complaint is heard from scattered sources, but on the whole the district is cheerful and confident of emerging into a better period.

Collections.—Dun's Review reports 97 failures, with liabilities of $1,872,700, in the fifth district during December, 1920, as compared, with 45 failures with liabilities of $581,176, in December 1919. The number of failures in December, 1920, was nearly double the number reported during any other month of the year, the second highest being October with 58 reported; but the liabilities amounted to less than the figures reported for July, 1920, when 39 firms failed for a total of $1,995,634. We give elsewhere in this publication a table showing failures reported for the fifth district from January through December, both 1919 and 1920, and an examination of this table shows that the first six months of 1919 witnesses approximately twice the combined liability of those which occurred during the last half of the year, but during the year 1920 the second half of the year was more than twice as disastrous to weak firms. From January to June, inclusive, 1919, 184 firms failed, with liabilities of $3,610,405, and from July to December, inclusive, 1919, 171 firms failed, with liabilities of $1,996,427. From January to June, inclusive, 1920, 203 firms failed, with liabilities of $4,064,980, and from July to December, inclusive, 1920, 335 firms failed, with liabilities of $9,035,343. The combined failures for 1919 totaled 355, with liabilities of $5,605,832, compared with 538 failures in 1920, with liabilities of $13,100,323 Evidently some larger firms failed in 1920 than in 1919, since the total liabilities for 1920 were 2.32 times the total liabilities for 1919, while the number of failures during the year were only 1.52 times the number of fatalities reported in 1919.

Further on in that same circular appear the following statements with reference to cotton and tobacco [continuing reading]:

Cotton and tobacco.—Prices for both cotton and tobacco continue unsatisfactory to the growers and they are therefore holding every bale and pound they can. Little of either commodity was sold during December, and many of the tobacco markets were closed a good part of the month, or until after the holidays. Much talk of reduced acreage for 1921 continues, and numerous plans to enforce a reduction have been advanced, but it is yet too early to say whether or not these plans will show material results. Crop reduction is a difficult thing to bring about, and no one will be able to say definitely whether there has been much change in acreage until the crops have been planted.

In a letter dated December 26, 1918, the Federal Reserve Bank of Richmond sent out a letter, "To the member banks addressed," as follows [reading]:

We inclose herewith a new schedule of discount rates effective on and after December 30, 1918. As will be seen, several reductions have been made from the rates heretofore current. These were made for the purpose of bringing our rates more into harmony with those established in other districts and should not be taken by our member banks as an indication that less care is necessary in the conservation of credit.

On the contrary, as was pointed out by the Federal Reserve Board in a letter dated November 19, 1918, and communicated to the banks of this district in our circular No. 85, under date of November 21, extreme conservatism in the granting of credit will be necessary for some time to come. The board's letter referred to reads, in part, as follows:

"The board does not, of course, desire in any way to discourage the proper commercial activities of member banks nor to criticize the very natural desire of bank officers to increase the normal profits and business of their institutions. The board deems it its duty, however, to caution the bankers, who have rendered and are rendering such efficient service to the Government in the present circumstances, that profit making and business expansion must, for some time to come, continue to be subordinated to the general welfare. There is no assurance that the cessation of hostilities in Europe will be followed by a reduction in demands made upon our banking resources. * * *

"Having knowledge of the fact that abnormal demands must be expected to continue, the directors of the Federal reserve banks should exercise a reasonable prudence in extending accommodations to any member bank, and should be satisfied, by proper inquiry or investigation, that the accommodation sought is for legitimate local requirements and not applied for merely for the purpose of increasing the profits or extending the business of member banks."

In a statement compiled by the Federal Reserve Bank of Richmond, by Caldwell Hardy, chairman and Federal reserve agent, under date of July 30, 1921, entitled "General business and agricultural conditions in the fifth Federal reserve district," appear the following statements [reading]:

In view of the greatly reduced expenditures on tobacco and cotton crops this season, and the large carry-over from last year's surplus, the predicted slump in production for 1921 may not be unfortunate.

Also further on in the same circular appears the following statement with reference to textiles [continuing reading]:

Textiles.—No material changes are indicated for the month of June in reports received from textile manufacturers. The knit goods factories report sufficient orders to keep them running to average capacity, but there is yet little buying for future delivery. Cotton cloth manufacturers are generally operating full time, but are accumulating some stock. The textile interests claim that no profits are being made at present prices, and state that they are operating simply to hold their labor together.

beIn circular letter No. 94, issued on December 20, 1919, to all mem-
r banks, the Federal Reserve Bank of Richmond said:

Our present task, therefore, is to proceed with the deflation of credits as rapidly and as systematically as possible.

On April 26, 1920, circular letter No. 95 from this same bank stated:

It is a recognized function of the Federal reserve system to exercise control over the volume of credit and currency. It is recognized to be unsafe to go further with commodity prices at such a dangerous height. If all the banks in this district will earnestly and conscientiously endeavor to limit credits to necessary activities for production purposes, insist that the burden of carrying loans on Government securities shall be gradually assumed by subscribers, etc.

Circular letter from this same bank of June 21, 1920, said:

Immediately upon the passage of the amendment we issued our circular No. 95, in which we expressed the belief that if all banks in this district would earnestly and conscientiously endeavor to limit credits. * * * We have sent out information intended to enable all member banks, and particularly those borrowing rather heavily from us, to cooperate with us intelligently for the conservation of credit.

On April 24, 1920, circular letter from the Richmond bank said:

We had been conducting a campaign for the conservation of credit for more than a year. If we can all pull together, however, for a while longer and continue to exercise the greatest possible care in the granting of further credits, etc.

On September 23, 1920, circular letter from the Richmond bank to member banks said:

It is, in our opinion, more important than ever that great conservation should be used in granting of credits, etc.

Now, Mr. Chairman, I want to refer to some quotations from the testimony of Gov. Harding, of the Federal Reserve Board. The first quotation is this [reading]:

All we've got to do is to get out of everlasting pessimism and quit saying, "Everything is going to the dogs." Why, a man has got to put up a cheerful face if he wants credit. You can't talk to the banker like you talk to the tax assessor.

The CHAIRMAN. What is the date of that quotation?

Mr. WANNAMAKER. That is a quotation that was made before your board in these hearings. I don't know what date it was.

Quotation No. 2—and I want to call your special attention to this. I have just read to you from numerous circulars issued by the banks. These quotations were from circulars issued by the banks of the various Federal reserve districts, which quotations were from those circulars, which said that prices were low and were going lower. [Reading:]

The board has cautioned reserve banks not to issue circulars. It is the job of the banker to look to the value of his collateral, but to do it in a quiet way. It is not the function of the reserve system to regulate prices, up or down, but to maintain credit.

I want to call your attention especially to the statements that I have read form these circulars. And I want to call your special attention now specifically to a statement made by Gov. Harding. It may be due to my lack of understanding of financial affairs that I do not understand it. It was in a statement issued, a monthly business review of the Sixth Federal Reserve Bank of Atlanta, under date of March 28, 1921. [Reading:]

Approximately 60 per cent of the cotton produced in the sixth Federal district is still held and a large proportion of it is pledged as collateral for loans on a basis considerably above the present low price of the staple.

Bankers from both member banks and nonmember banks found in applying for renewals of loans falling due with the banks in the North and East, or in applying for new loans, that these banks insisted upon liquidation and declined renewals, plainly stating that the condition of the banks as shown by these circulars were proof positive that the banks were overextended or doing an unsafe business. In fact, this con-

tinuous publicity through the press and by circulars destroyed the confidence of the depositors to such an extent that tremendous sums of money was withdrawn from deposit and hoarded by the depositors, thus taking it out of circulation and adding to the seriousness of the situation.

In other words, the banks have numerous loans on hand. A gentleman calls me up and calls my attention to this statement, and says that he finds it has an effect upon his New York banking connection. They say you are overloaned; you are loaning more money than the cotton is worth. Here is the statement of the Atlanta district bank saying so.

I would like to insert in the record and read to the commission the following article by W. M. Steele, secretary of the Louisiana division of the American Cotton Association, writing to the Cotton News.

The CHAIRMAN. Without objection, it may be read.

Mr. WANNAMAKER (reading):

SEVERELY CRITICISES GOV. W. P. G. HARDING AND POLICIES OF THE FEDERAL RESERVE BOARD—W. M. STEELE, SECRETARY LOUISIANA DIVISION AMERICAN COTTON ASSOCIATION, WRITES SPECIAL ARTICLE FOR COTTON NEWS.

Mr. W. P. G. Harding, governor of the Federal Reserve Board, is not usually credited with a sense of humor, but it is difficult for those who have watched the course of events for the past year to read his testimony before the joint congressional committee, to accept that testimony as aught but a merry jest, or—perish the thought—deliberate misrepresentation.

"All we've got to do is to get out of everlasting pessimism," said Mr. Harding, "and quit saying 'everything is going to the dogs.' Why a man has to put up a good cheerful face if he wants credit. You can't talk to the banker like you do to the tax assessor."

Gov. Harding forgets (or ignores) the fact that it was largely his policies in the disastrous deflation campaign that took the joy out of life for the agricultural producers of this country—his policies that precipitated upon the agricultural interests of the country the most sudden, the most disastrous, the most ruthless, destruction of values; his policies which transformed, almost overnight, a happy hopeful people into despairing, panic-stricken strugglers who, to save their economic lives, were kept on the jump just one step ahead of bankruptcy; his policies which while greeting suppliants with the glad hand and suave promises of all necessary help to market their crops, was applying the financial garrotte to them as they plead; his policies which, in a mad frenxy of deflation, lifted the rediscount rates and instituted the villainous system of progressive interest rates, which enabled the Federal Reserve bank to charge a little bank in Alabama interest amounting to 87 per cent per annum on a small loan, while favored banks in New York were accommodated with millions at 6 per cent per annum, on which these New York banks made enormous sums of money—and hedged the ordinary functions of the Federal reserve system about with such restrictions for the cotton borrower that it was worse than the gall and vinegar given to the thirsting Savior.

And we must not be pessimistic.

Why, it is not unlike the slaughter of the innocents to make a Roman holiday.

But the real gem of humor in Gov. Harding's testimony is this:

"The board has cautioned reserve banks not to issue circulars. It is the job of the banker to look to the value of his collateral, but to do it in a quiet way. It is not the function of the Federal reserve system to regulate prices, up or down, but to maintain credit."

In the light of recent history this is probably the most remarkable statement ever made by a high Government official. The caution to the reserve banks about circulars evidently fell upon deaf ears, for "reviews" have issued regularly from the Atlanta bank and others as well. And ever since the announced policy of the Federal Reserve Board to bring down prices by boosting the rediscount rate, and applying the progressive interest rate, these reviews of market conditions have always foretold further declines. This was just part of the studied campaign of deflation to smother demand by the promise of still lower prices.

When the southern cotton farmer, facing a continually declining market and unable to get credit, in many cases even sufficient to buy food to last him through the year.

heeded the advice of the leaders and curtailed his cotton acreage, seeking to firmly place his industry on a sound economic basis—to base it on supply and demand—did he get any help from the Federal Reserve Board? He did not. Every utterance from the sacro-sanct precincts of the board, either in Washington or the branches, was calculated to throw cold water upon his efforts. While the slogan was to cut production of cotton 50 per cent by restricting cotton acreage to one-third of the lands cultivated, a sound economic basis which should be made permanent, and though it became apparent early in the spring that the curtailment would almost reach the desired figure, here is the form of encouragement given by the Federal Reserve Board in a statement issued in Washington on May 1:

"While the earlier reports indicated a very large reduction in the acreage it is now generally understood that the reduction will not be as great as was previously indicated."

This statement also includes this:

"However, District No. 8 (Atlanta) reports that 'conservative estimates place the reduction in acreage compared with last year at from 10 to 20 per cent.'"

The business review of the Atlanta bank for April contains this same statement.

The Federal Reserve Bank, instead of adopting or giving credence to the view of the men who were friendly to cotton and knew that the curtailment was much greater, fell for the view of the skeptics who had been bearing the market and helped their game along.

During the national political campaign last fall when the deflation thunderbolt was launched to bring down the high cost of living, the Federal Reserve Board issued a statement on August 26, 1920, to unite with the larger cotton States in cutting cotton out for 1922, carried broadcast by the Associated Press, which contained the following:

"Marked indications that living costs apparently have started on their long-awaited fall, was said by the Federal Reserve Board to-day to be contained in its latest reports. An 'important downward tendency' in prices of all commodities excepting food, is evidenced in all parts of the country, the board stated, adding that a sharp reduction in the price of raw products even forecast lower food prices."

Also—

"Lower prices on cotton and cotton products were forecast because of an unexpected crop combined with a slowing up of demand."

Of course, the Federal Reserve Board has nothing to do with prices—whether they go up or down is immaterial to it—and such dope as this would assuredly be calculated to stimulate buying.

Even as late as last June, it was still doling out its doleful dope. Read this forecast of further falling prices in its statement issued on June 30, 1921:

"Theories that prices had reached a stable basis, founded on the slowing up of the price fall in May, the board found were set aside by later records, and the board concluded that 'it is even more evident that the close of the readjustment period has not yet been reached' in some lines of business, notably iron and steel."

No; the Federal Reserve Board does nothing to affect prices, either up or down, according to Gov. Harding, but the fact remains that its utterances have had a direct and malign influence on the price of cotton time after time, and more particularly just after an appeal to him for help. Look back at the records, see what has been the result on the cotton market every time Mr. Harding or his then chief, Mr. Houston, the Secretary of the Treasury, gave out a statement. One statement by Mr. Houston, who was recognized as dominating the policy of the Federal Reserve Board at that time, was followed by a drop of 5 cents a pound within a week's time. On another occasion, in September, 1920, after insistent demands for a more liberal policy, Mr. Harding invited leaders in the cotton industry to Washington to discuss the situation, and at that time issued an ambiguous statement which many of the leaders took at its face value and went home full of hope and expressing the highest appreciation of the attitude of Gov. Harding and the Federal Reserve Board. They wrote articles and made speeches and lulled their people into a sense of security. It was believed that every facility would be given the farmer to market his cotton in an orderly manner—in other words, that he could borrow money on his cotton for his immediate needs and hold the cotton until demand made a satisfactory market. But that fool's paradise was shattered on October 8, when, after another conference, held this time in Birmingham, Gov. Harding ripped the mask from his policies and the cotton producer realized at last that he could expect no help from that quarter. Not only did he realize that he could expect no help, but he found out that what was supposed to be an agency of support to him in a crisis, had been transformed into an instrument being used to beat him to his knees. With studied misunderstanding and with studied misrepresentation of the demands and needs of the cotton producer, Gov. Harding thus brutally blasted his hopes:

"The Federal reserve bank system was not established to assist plans for holding commodities off the market, nor is it at the disposal of speculative enterprises organized to advance private interests."

And this in the face of the fact that the policy of deflation had smothered demand, had killed the market, and all buyers were holding off for the rock-bottom prices promised by the Federal Reserve Board.

Gov. Harding might blandly inquire if this statement had any effect on quotations. The records show that it had—a wet blanket effect, that extinguished all hope of relief from that quarter and inspired the bears with the confidence that enabled them to pursue their slaughter without danger of hindrance.

Not to pile Pelion upon Ossa but to cite just one more instance of deflation propaganda, it might be well to quote this extract from the Monthly Business Review of the sixth district reserve bank (Atlanta) under date of March 28, 1921:

"Approximately 60 per cent of the cotton produced in the sixth Federal district is still held and a large proportion of it is pledged as collateral for loans on a basis considerably above the present low price of the staple."

If this were true, the condition of southern banks was very bad and they should not have been exposed by an institution which had confidential access to their portfolios. If it were false, it was criminal to publish it. This statement had a direct effect on the market, when circulated by a cotton house with wire connections. It was at first denied by an official of the Atlanta bank, but the printed page proved the responsibility of the bank for its utterance. Could this statement by any stretch of the imagination be classed as innocuous?

Federal reserve officials give as the reason why the rediscount rate in the five southern banks was not lowered to 5½ per cent, when it was recently lowered in the other reserve banks, the claim that the southern banks are loaned up to the hilt. They have been harping on that string for a long time. One has no means of knowing at present what proportion of the outstanding loans are really agricultural loans, but last fall the charge was made, substantiated by the facts, and never denied, that when this same wail was put up by the Atlanta bank it had outstanding loans in New York to two concerns of twice the amount which was outstanding in its district on cotton. If this practice was common, it is no wonder that southern reserve banks have reached their limit if their resources are to be used in eastern centers to make money easier there, and by creating a scarcity in the South, putting force behind the financial garrotte that was throttling the agricultural South. While Gov. Harding is prating about excessive loans to southern agriculture, let us look into a record that was produced by L. B. Jackson, of the Georgia Bureau of Markets, just after Mr. Harding had taken off for the moment the mask of friendliness to the producer last fall.

The October 1 statement of the Atlanta bank showed rediscounts of $176,064,910. Of this amount, that debited against agriculture was $18,190,148. That classified as commercial and industrial amounted to $37,783,862, and "all others," rather peculiar, considering the amount, $120,000,000. That does not indicate that southern agriculture was being particularly favored, especially when it might be truthfully said that some of the "agricultural" paper probably is wrongly classified. Mr. Jackson further charged that of this $18,000,000 debited to agriculture only four million was outstanding against cotton.

Considering the general policy of the Federal reserve bank, not as announced in salve-spreading announcement, but as actually applied in its relations with member banks and their borrowers, it is not likely that the proportion outstanding on cotton has been allowed to increase very materially.

It would not be amiss to point out another incident in the general policy of helpfulness (?) to the producer. In the midst of the general gloom last fall the sixth district bank issued an order to member banks that cotton factors' paper would not be rediscounted as theretofore. To make this paper eligible for rediscount, the factor had to prove ownership of the cotton pledged as collateral (which, of course, he could not do, as he did not own the cotton) or he had to procure specific authority from the owner to pledge it for loan. This disturbed a business custom that theretofore had been regarded as sound and made it difficult for factors to carry on their business, and in some cases threw insurmountable obstacles in their path.

And now comes Gov. Harding before the joint congressional committee and blandly denies that the Federal Reserve Board did aught to injure the cotton producer, but did save the Nation from financial collapse. He may be able to convince some people that the Federal Reserve Board is without sin, but the record belies it. To most persons who have followed the course of events, he will have to answer specifically, the charges of John Skelton Williams, one time member of the board as Comptroller of the Currency, and those of Senator R. L. Owen, one of the framers of the Federal reserve act, who charges plainly that the present board has perverted the

law and transformed the system into an instrument of harm. He will also have to explain, if he can, the decision of the Supreme Court of the United States. No individual has dared to charge to the Federal Reserve Board the crimes laid to it in a decision of the highest court of the land.

And yet Gov. Harding blandly smiles, enters a general denial, and rests content in the confidence of those who know not the dark record

There was a statement issued on April 28, 1921, as follows:

SAYS BIG COTTON CROP IS OUTLOOK—FEDERAL RESERVE BOARD HEAD PREPARES TO MAKE SURVEY OF FARM CREDIT SITUATION.

WASHINGTON, *April 28.*

Gov. Harding, of the Federal Reserve Board, announced to-day that he would begin next week a personal survey of the farm credit situation in the Middle West and Southwest.

The board, the governor said, had thought it advisable that he make a tour of the farming area so as to learn at first hand the problems of the country bankers and trade organizations. The real crux of the farmers' problem, in the view of Mr. Harding, is the foreign situation. The farmers, he said, must have a market for their commodities as they can not go on indefinitely on credit without selling their crops. He thought the reduction of the rediscount rate by the Bank of England might aid American farmers by making possible a more liberal market for grain and cotton not only in England but other European countries.

Inequalities in price readjustments as between the wholesalers and retailers and the transportation situation also were described by Mr. Harding as contributing causes to the present agricultural situation.

The Federal Reserve Board, Mr. Harding said, has no specific plan for relief of the farmers. He explained that the reserve banks could not make direct loans to farmers, but could only rediscount the loans of member banks.

Reports to the board, Mr. Harding continued, indicate that next year's American cotton crop will be within 75 per cent of this year's total, although at the end of the present cotton year on July 1 there will probably be a surplus of 8,000,000 bales, or nearly a world's supply under present conditions. In the face of this situation, he added, bankers naturally are cautious in increasing their loans on farm paper. He expressed the belief, however, that there would be sufficient advances to care for the immediate needs of the farmers in planting their crops.

AMERICAN COTTON ASSOCIATION,
St. Matthews, S. C., April 29, 1921.

Hon. W. P. G. HARDING,
Governor Federal Reserve Board, Washington, D. C.

MY DEAR GOV. HARDING: Please note inclosed herewith clipping which came out on the Associated Press on yesterday. Please advise if you are correctly quoted in this dispatch. I feel sure that the statement quoting you as to the production of cotton for 1921 is not a correct quotation.

Our association has probably the most complete system of crop reporting in America to-day. We have thoroughly organized it so as to touch every angle of the cotton industry in every section of America where cotton is produced. In addition to our regular line of reporters, we have 4,000 reporters representing the best talent in the South, composed of farmers, bankers, merchants, warehousemen, and ginners, representing every section of each of the 850 cotton-producing counties. We have been getting reports as a matter of information for the past several weeks, but of course reports can not be reached with accuracy until the planting season has been past. We have received many urgent requests for information concerning acreage for the coming year from various lines of the cotton industry, and have positively refused to issue same, informing the trade that the Government does not make up its report until May 25, and that it will be impossible for anyone to issue an accurate report at a much earlier date. Even reports received now from the Government or otherwise would not be accurate as to the final indicated yield.

Still the statement inclosed quotes you as saying that we will produce 75 per cent of last year's crop, and it will naturally carry great weight with it unless corrected.

I am calling your attention to same with the hope that you will see that it is immediately corrected.

In this statement I note that you expect to visit the West and Southwest to study agricultural conditions. While you are naturally thoroughly familiar with the South. existing conditions are so far different from any that we have ever experienced in the last one-half century, I sincerely hope that you can also favor the South with a visit so as to study conditions here as well as in the West and Southwest.

I would appreciate very much your attention in reply, and assuring you of kindest personal regards, I am,

Sincerely, yours,

J. S. WANNAMAKER, *President.*

FEDERAL RESERVE BOARD,
Washington, May 2, 1921.

MY DEAR MR. WANNAMAKER: I thank you for your letter of April 29, inclosing newspaper clipping. That portion of the clipping which relates to the cotton crop does not report me at all correctly. In answer to a question by one of the newspaper men as to what the acreage of cotton was and what I thought the production would be, I stated that I had no information as to acreage, and pointed out that the Department of Agriculture would issue a report the latter part of May and that an estimate in advance of that statement would be purely a guess. I may say further that I declined to make a guess and also called attention to the fact that a great many things besides acreage, such as climatic conditions and insect damage, entered into the ultimate yield.

With kind regards, I am,

Very truly, yours,

W. P. G. HARDING.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

AMERICAN COTTON ASSOCIATION,
St. Matthews, S. C., May 7, 1921.

Hon. W. P. G. HARDING,
Governor Federal Reserve Board, Washington, D. C.

MY DEAR GOV. HARDING: Your letter of May 2 in reply to mine of April 29 has received my attention.

I am very glad to note that you did not issue the statement accredited to you concerning the indicated yield of cotton for the present year; that you stated you had no information as to acreage, and pointed out that the Department of Agriculture would issue a report the latter part of May and that an estimate in advance of that statement would be purely a guess; and that you even declined to make a guess and called attention to the fact that a great many things besides acreage, such as climatic conditions and insect damage, entered into the ultimate yield.

We find that the statement referred to in my letter of April 29 appeared in the leading press of the Nation as an interview from you. It is impossible to correct this statement and undo the damage that has been done unless you will issue a denial of the statement through the press, so that the same papers that have given nation-wide publicity to the statement as having come from you will correct at least to some extent the great damage that has been done.

A statement from you carries great influence. No other source could possibly issue a statement that would carry such influence, and unless this statement is corrected by you the people of the entire Nation and abroad will be influenced by same. The statement will appear in the foreign press, especially in the manufacturing centers and will have great weight there.

Immediately upon reading the statement referred to, our association issued 6,000 requests to that number of representatives covering the entire cotton-producing section of America and representing the banking, warehousing, merchandising, and farming interests, requesting detailed information concerning acreage, use of fertilizer, effect of climatic conditions, and also the amount of acreage already abandoned on account of the inability of the farmer to secure credits of either moneys or goods for the cultivation of cotton which he had already planted. The representatives to whom these requests were sent represent the most reliable sources from which it is possible to secure information bearing on the indicated yield. Replies to these requests so far received convincingly prove the injustice that has been done in the interview which the press accredited to yourself, stating that we would produce 75 per cent of last year's crop in 1921.

While I agree with you fully that an estimate made at this time would be purely a guess and that a great many things besides acreage, such as climatic conditions and insect damage, enter into the ultimate yield, in addition to this the replies received bring to light the fact that the production of cotton this year will be far more largely proportionately reduced than any time within the last one-half century, not even excepting the conditions following the war between the States, by the abandonment of acreage planted, which abandonment is due to the fact that the farmer on account of the above conditions is unable to obtain credits of either goods or moneys for the cultivation of his crop—many replies received showing cotton acreage abandonment for these reasons.

I sincerely hope that you will give this matter your immediate attention, as the longer the statement remains uncorrected the greater will be the damage that it will do. I, of course, understand from your letter that you did not issue the statement. However, there can be no question but that the publicity to this statement was given out by the representatives of the press who called on you, as per your letter of May 2, and requested a statement as to the acreage and indicated yield. Therefore, these newspaper men should be forced to issue a corrected statement, both in justice to yourself and the agricultural, industrial, and commercial life of the entire Nation, as well as the newspapers they represent.

Awaiting your early advices, for which I thank you in advance, I am, with kind regards,

Very truly, yours,

J. S. WANNAMAKER, *President.*

P. S.—I note in your letter of May 2 in reply to my letter of April 29 inclosing you newspaper clipping that you state:

"In answer to a question by one of the newspaper men as to what the acreage of cotton was and what I thought the production would be, I stated that I had no information as to acreage and pointed out that the Department of Agriculture would issue a report the latter part of May and that an estimate in advance of that statement would be purely a guess. I may say, further, that I declined to make a guess and also called attention to the fact that a great many things besides acreage, such as climatic conditions and insect damage, entered into the ultimate yield."

As your letter makes no reference to the remaining part of the interview, copy of which I sent you, it is my understanding that with this exception the interview is correct. It would seem to me, therefore, that any additional corrections aside from the corrections referred to in the above quotations from your letter of May 2 should come from you in addition to the corrections made by the newspaper representatives.

J. S. WANNAMAKER.

FEDERAL RESERVE BOARD,
Washington, May 9, 1921.

MY DEAR MR. WANNAMAKER: I acknowledge receipt of your letter of the 7th instant and note your suggestion that I issue a statement to the press denying the part of the interview to which you refer. I wish to say that I am very frequently misquoted and the Federal Reserve Board has been frequently misrepresented by various publications and that it is not the board's policy to attempt to make corrections of all these misrepresentations. The particular interview to which you refer was given to 8 or 10 newspaper representatives and I do not know which particular one was the author of the dispatch which referred to the cotton situation. No reference was made to cotton by me and the question was brought up by some of the newspaper men and they discussed it among themselves. In the course of this discussion I made the statement referred to in my letter to you of May 2. I do not believe that a denial by me would get general circulation nor that it would be effective in counteracting any wrong impressions which may have been created. I think, therefore, it would be a better plan for you to use my letter of May 2 in any way which you may deem proper and it will be entirely agreeable to me for you to make such use of it as you may wish.

With kind regards, I am,

Sincerely, yours,

W. P. G. HARDING.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

The CHAIRMAN. What deduction do you draw from this statement?

Mr. WANNAMAKER. I draw this, sir, that it drives out of the market all buyers. I draw this conclusion.

The CHAIRMAN. Do you think it was a true statement of the situation?

Mr. WANNAMAKER. I think it is absolutely a true statement, if you permit the Federal Reserve Board to continue to drive prices down. This is absolutely correct, if you continue to permit them to do that. If I was a buyer, when they put this policy in force, I would not buy.

I can find no legal authority provided by legislation or constitutional provision authorizing or permitting the Federal Reserve Board or Federal reserve district to issue statements and circulars effecting prices. Such action is certainly not the intention of the original act nor is provided for in any special legislation and to pass legislation authorizing such action based upon the result of the continuous issuance of such circulars and statements through the press would prove a monumental blunder, and I, therefore, urge that your commission give serious consideration to the preparation of an act forbidding such action on the part of the Federal Reserve Board or any of the officials of the regional reserve system. It is the duty, as provided by law, for the Agricultural Department to issue regular condition crop reports, also statistical reports, and with this information it would seem that Government action would cease, permitting the law of supply and demand to function, instead of artificially interfering with same by continually issuing statements and circulars as to condition, indicated yield, markets, demand, supply, and indications as to prices. It is said that experience is one of the best school-teachers; I fail to find in any of the successful banking institutions of Europe where a similar course to the one pursued by the Federal Reserve Board as outlined above has been followed.

The methods employed by the autocratic power vested in the Federal Reserve Board to force drastic artificial deflation in market values all over the Nation, and especially in the prices of staple agricultural products, were identically the same employed by those in control of the financial machinery, and which have precipitated panics and suffering upon humanity following periods of inflation after great wars for the past 3,000 years. History is honeycombed with records recounting disasters to agriculture, commerce, and business as the result of the policies employed by the Federal Reserve Board in 1920, and which type of policy was forced upon this Nation between 1873 and 1878, a few years after the Civil War between the States. The expedient employed was to restrict credit, contract the currency, advance the interest rates abnormally, and to practically place an embargo on exports. Those into whose hands are instrusted the financial machinery of a nation, and given autocratic power, can create, at will, a buyer's panic which is destructive to a nation's progress and business. The raising of rediscount rates, restriction of credits, and contraction of currency, whenever enforced, has had a depressing effect upon prices.

The action of the Federal Reserve Board promptly produced a buyer's panic, first in this country and later on in Europe. The United States being the creditor nation of the world was certain to adversely affect financial conditions in foreign countries through the

policies of drastic artificial deflation inaugurated in this country. The records on file in the offices of the Federal Reserve Board and Comptroller of the Currency fully confirm the disastrous policy of deflation to which your attention has been called, and these records I will present further on in my statement as a specific part of these allegations.

Whether Congress intended or not, the fact is now established that the absolute control of the Federal reserve banking system and through that system the whole financial machinery of the Government and the Nation is vested in the authority of the Federal Reserve Board.

The 12 regional reserve banks established in various sections of the Nation are merely so many branch banks directed and controlled by centralized authority vested in the Federal Reserve Board at Washington. This board has the selection and appointment of three of the highest officials in each regional reserve bank who act as Class "C" directors in the directorship of each regional reserve bank. One of these Class "C" directors is chairman of the board and Federal reserve agent, while another is vice chairman and first assistant Federal reserve agent. With seven members constituting the Federal Reserve Board at Washington, and with three of the principal officers in each regional reserve bank as the appointees of the Federal Reserve Board, the preponderance of control, as to the acts and doings of each regional reserve bank, lies in the hands of the Federal Reserve Board.

Unless the central reserve board at Washington is composed of men who have a broad and comprehensive knowledge of the agricultural and commercial needs of the Nation, rather than the more restricted and usually cold-blooded business of finance, the financial machinery of the system will never be able to function at all times and under all circumstances for the best interest of the Nation's industries. At the present time and during the past 12 months the prosperity and progress of the business of the people have been completely ignored, and their fortunes have been subsidized in a dangerous way to the crusaders of a most vicious and ruinous system of finance, better likened to the dark ages than to this day of enlightened civilization.

I would urge the careful investigation of your committee into this matter for such legislative changes as may be necessary.

The American Cotton Association convention was held in Montgomery, Ala., April 13–16, 1920, this convention being attended by several thousand farmers, merchants, bankers, business and professional men from every section of the 14 cotton-growing States. At this convention the following address was delivered by me:

ADDRESS OF J. S. WANNAMAKER, ESQ., PRESIDENT OF THE AMERICAN COTTON ASSOCIATION AT THE FIRST ANNUAL CONVENTION OF THE AMERICAN COTTON ASSOCIATION, MONTGOMERY, ALA., APRIL 13 TO 16, 1920.

Had it not been for the introduction of cotton into America the South would have been the richest section of the world; it would have been a great manufacturing center, the granary and stock raising section of America; it would have been thickly settled with the best blood of the Anglo-Saxon race. It would not have had slavery, it would not have had the war between the States, we would not have been cursed with the fearful reconstruction period.

In about 1828, just a few years before the controversy over nullification, on account of the assessment of duties on imported cotton goods, John C. Calhoun, the great

southern leader and Vice President at the time, bitterly opposed this unjustifiable taxation and South Carolina threatened war and to secede and it was only through the intervention of Henry Clay, who acted as mediator and secured a marked reduction of these import duties that a compromise was effected; had this compromise been refused, in all probability no tariff would have been imposed and the results would have been far-reaching. The market for cotton would have been broadened, American commerce would have been based upon reciprocity and trade agreements, and the results upon American commerce would have been startling. In all probability, long before to-day, America would have had a great merchant marine for the purpose of carrying her goods to the four corners of the earth. The cotton producers of America would have certainly secured at least a portion of the emoluments justly due them from the production of cotton. The conditions in this section of America from every standpoint would have been far different to-day. It would have been impossible for European countries to have waged the World War for four long years and to have have wrought the unthinkable destruction that has resulted from this war. The great balance of trade to America, as a result of permitting the natural course of commerce, under free trade, would have resulted in the manufacturing of a large portion of the American cotton crop in America and the sale of the finished product to the European countries, thus instead of having furnished Europe with the financial means secured from our cotton and other raw products for the commencing and continuing of this war, America, as the world's banker, would have had absolute control of the financial fabric of the world.

We of course can not undo the past; however, to-day we have the opportunity to change conditions from what they are into what they ought to be and by cooperation and organization the agricultural interests of the South can be put upon a safe. sound business basis. The organization of the American Cotton Association and the putting into effect its economic reforms, is the solution of this vexed question. If we fail the results will prove disastrous as the mistake of 1828 and we will return to the commercial slavery which has existed since 1865.

CONDITIONS FACING THE PRODUCER AND THE COTTON INDUSTRY—A GREAT INDUSTRIAL AREA.

The world is starting upon the greatest industrial era in the history of man. Opportunity is knocking at America's door. The nations in the uttermost parts of the earth need our productions, our home markets for years have been overcrowded, we could not sell at home what we have made in the factories and fields.

PRODUCTION.

America produces more raw material than any country in the world: Among other products producing with only 6 per cent of the world's population and 7 per cent of the land, 20 per cent of the world's gold; 40 per cent of the world's iron and steel; 25 per cent of the world's wheat; 40 per cent of the world's lead; 40 per cent of the world's silver; 50 per cent of the world's zinc; 60 per cent of the world's oil; 75 per cent of the world's corn; 85 per cent of the world's automobiles; and 60 per cent of the world's cotton. Special attention should be given to the production of the South. It certainly can not be charged as a slacker in the matter of production, while it has about a third of the population of the country it produces 36 per cent of the entire corn crop of the United States; 99 per cent of its rice; 99 per cent of its sweet potatoes; 30 per cent of its apples; 40 per cent of its peach crop; 29 per cent of its milch cows; 38 per cent of the total number of cattle; 39 per cent of the total number of swine of the country. It produced last year 26 per cent of the entire output of butter; 45 per cent of the production of chickens and other fowls; and 38 per cent of the output of eggs. Last year it produced the entire sugar-cane crop of the country, or 625,500,000 pounds of cane sugar, which was 25 per cent of the total sugar produced, including beet sugar, of the United States, to which should be added the entire molasses production of the entire country. It has a virtual monopoly on the output of cottonseed oil, producing about 1,400,000,000 pounds per year, or almost as much as the total production of butter on the farms and in the creameries of the whole country. The best authorities estimate that the intrinsic value of the cotton seed produced in the South for man and beast averages $350,000,000 a year. The South for the first time in the last 60 years has the world's cotton trade under her dominion. It has 88,000 square miles of coal fields, with iron ore sufficient to supply for years the entire trade of Europe; able to produce foodstuffs for 100,000,000 people, able to do more manufacturing than the whole country is doing to-day. The South is to-day awakening from its slumbers. With organization and cooperation the South is facing a marvelous prosperity; we must organize and cooperate. The great fight for the future will be trade, we must have foreign markets in order to get a fair price for our products at home.

FOREIGN MARKETS AND AMERICAN PRODUCTION.

Just before President McKinley was assassinated he declared in a public speech that the time had now come when we must trade with other nations through agreement and that reciprocity should be our national policy. President McKinley had a broad vision of this matter, he realized that high tariff was no longer the best thing for the country and that a high tariff country was handicapped in securing world trade and in competing with other nations who had adopted free trade. He had a bill introduced for the appointment of a cotton commission of five men to be appointed by the President to visit foreign countries, investigate conditions, and to establish trade relations, to the end of establishing in all countries possible a market for raw material and for our manufactured goods. I urge in the strongest terms that our association use all possible means to have such a commission appointed. This commission should be appointed for a period of five or six years and during that time should visit every country, establish trade relations with these countries and agree upon the terms upon which our raw cotton, cotton goods, and other products subject to export should be admitted into the various ports of the world.

PERSONNEL OF THE COMMISSION.

This commission should be composed of two representatives for the section of America producing wheat and corn and raising cattle and three representatives from the section of America producing cotton. This will result in the forming of a world-wide market for cotton and other agricultural products and in addition to this it will force the building of a great merchant marine to carry our products into all countries of the world and we will thus find that the demand for all agricultural products will be enormously increased and that 15,000,000 bales of cotton will scarcely supply one-half of the world's needs.

CREATION OF A BOARD OF AWARDS AND THE ESTABLISHMENT OF A HALL OF SERVICE OF THE AGRICULTURAL DEPARTMENT OF THE UNITED STATES TO PERPETUATE THE NAMES OF THOSE RENDERING SIGNAL SERVICE TO AGRICULTURE.

It has been well said that the well being of a people is like a tree; agriculture is its root, manufacture and commerce are its branches and its life; if the root is injured the leaves will fall, the limbs will break away and the tree will die; therefore the man who renders outstanding service in improving agriculture is a benefactor to mankind and his service should be appreciated and commemorated.

For this purpose and primarily for the purpose of attracting the endeavors of man in assisting and promoting scientifically agriculture, improving agricultural conditions, emphasizing the tremendous importance of agriculture, I urge that all necessary steps be taken and all possible efforts used to have necessary legislation passed by our National Government for creating a board of awards, to be composed of the Secretary of Agriculture, the chairman of the Committee on Agriculture of the Senate, the Committee on Agriculture of the House of Representatives, and two members at large to be appointed by the President, it being the duty of this board to recommend for the purpose of receiving the title of "Patrons of agriculture," men who either by financial contributions, either to the National Agricultural Department or any State agricultural department or existing agricultral college or for the purpose of establishing additional agricultural or horticultural colleges, or to the agricultural associations or societies. The financial contributions to be used for the purpose of education and the development and promotion of agriculture in all of its branches; also those who have rendered signal service by the development of means and methods of increasing production; also to men who by the discovery of scientific methods have effected great benefits in the promotion of agriculture, including the eradication of insect damage; also for men who have discovered and perfected patents, inventions, processes and improvements that will contribute to the betterment and enlargement of agriculture. The men so selected must be selected because their accomplishments are not only worthy of the present but because they are permanent.

THE NEED OF THE WORLD FOR AMERICAN COTTON AND COTTON GOODS.

America has always suffered on account of the lack of foreign markets, and she now has the opportunity to secure markets as broad as the world. The crying need of the world for production has never been supplied; even during the period when we have produced the largest crops and carried the largest surplus there would have been far more than sufficient demand at profitable prices for cotton goods to consume every pound of cotton had it not been for restraints and restrictions on trade. Even to-day the best statisticians show that while nine-tenths of the clothing worn by the world is

made of cotton, with 1,800,000,000 people in the world, only 500,000,000 are completely clothed, 750,000,000 partially clothed, and 550,000,000 without any clothing of any description. To provide clothing for the world it is calculated that 55,000,000 bales of cotton, or 15½ pounds of cotton for every human being, would be required each year. The world's consumption of cotton under conditions which have been existing has been approximately 23,000,000 bales annually, and of this amount during the last decade the American cotton crop has averaged 13,000,000 bales. There will be an enormously increased demand for cotton as a result of changed conditions growing out of the World War; the people of the world will require, according to statistics of the best experts, an annual consumption of around 35,000,000 bales of cotton.

It is the consensus of opinion among leading experts that it will take at least 15,000,000 bales from the American cotton crop for the coming year to satisfy the pressing needs of the world. On a basis of 155 pounds yield per acre, which is the approximate yield per acre for the last five years, it will take 48,387,096 acres to make this crop of 15,000,000 bales. There is not sufficient labor in the South to cultivate this great acreage in cotton and keep up the current volume of food production, whose maintenance at the established level just as vitally concerns the balance of the world as it does the South. Had the cotton producer received a profitable price for his cotton this condition would never have arisen. It is now absolutely necessary for him to receive a sufficiently profitable price to not only compete with other lines of industry in the matter of securing his labor, but to be able to pay wages and offer inducements better than other lines of industry, so as to attract the necessary labor back, and protect and rebuild the cotton-producing industry, so as to safeguard the pressing needs of the world.

LABOR AND THE COST OF PRODUCTION.

The producer is facing the necessity of a marked increase in the cost of production of cotton—labor, fertilizer, seed, mules, and all agricultural implements are doubled and tripled the prewar prices—in fact it is no exaggeration to say that the cost of production is higher than ever before. The change in labor conditions especially will be almost as complete and revolutionary as they were in the period following the War between the States. The Negro soldier, returning home, has sown discontent throughout the length and breadth of the belt. The Negro is no longer contented with uncomfortable surroundings, he demands better houses, better living conditions, vastly increased wages, and he is readily granted these requests by other industries; the producer is unable to compete, hence his labor is leaving the farms for other lines of employment. Under these conditions the farmer is forced to plant crops than can be cultivated and harvested by machinery and it will be absolutely impossible to cultivate and harvest a crop of cotton as large as last season, and no possibility of increasing the cotton production of the South to meet the pressing increasing demands, until a sufficiently profitable price is paid for cotton so as to enable the producer to successfully compete with other lines of industry, Unless the producer is promptly placed in position to meet this changed labor condition, it means a permanent decrease in cotton production, as his labor, once attracted to other fields, will not return. The fact that the South produces something more than one-third of the food supply of the Nation, all the cotton and a greater part of the wool, gives the farm laborer in the South a place of first importance at all times, and especially so, in a crisis like that through which the world has passed and is now passing. Hence, his attitude and his activities become a matter of great public concern at this particular time, as the South is just beginning to make preparation for the crops of the coming year and on the eve of a world need of an enormous increase in cotton production and the tremendous increased cost in all commitments entering into the production of cotton.

THE SOLUTION.

The only solution that is supported by the records of the past is to reduce the acreage and bend every energy to increase the output per acre. In other words, it is only through intensive cultivation that the South can hope to secure an increase in quantity production with the labor that is available. The truth is, regardless of the labor supply, intensive farming is the only way production can be brought up to where it adds anything like real performance to the wealth and economic power of the country.

NECESSITY OF SAFE, SOUND FARMING METHODS.

The producer realizes the necessity of safe, sane business methods in farming and that the hazard of production on account of the great shortage of labor and on account of the increasing inroads of the boll weevil and other insect damage has enormously

ncreased. Under these conditions the enormous increase in the production of other crops, as shown by the records of the United States Department of Agriculture for the South are permanent.

BENEFITS TO HAVE BEEN DERIVED FROM A FAIR PRICE.

Had the producer received anything like a fair price for his cotton during the last 30 years it would have brought an enormous enrichment to every section of the cotton producing region. The cotton producing section of America would have been the wealthiest of the Nation. It would have meant rural conditions second to none on the globe; it would have meant better roads, and better farming conditions; it would have meant a broader development of rural education and the educational system of the South. The deplorable illiteracy which exists in many sections of the South to-day would have been unknown. Had the producer received a fair price for his cotton the South to-day would have been humming with machinery and the bulk of the American cotton crop, instead of being shipped largely in its raw form, would go to the markets of the world as a manufactured product, bring to the South and to America an enormous increase in wealth, not only maintaining for the Nation, as at present, the balance of trade and her gold reserve, but so enormously increasing the same that it would result in making this Nation the world's banker.

VALUE OF THE WORLD'S COTTON CROP.

In its raw form, including the seed, the world's cotton crop is now worth at least $200 per bale, or about three and a half billion dollars. In its manufactured form its value is about tripled and would approximate $11,000,000,000. The total capital invested in the production and manufacture of cotton and the cottonseed industry has been recently estimated at approximately $30,000,000,000.

VALUE OF THE AMERICAN COTTON CROP, AMOUNT CONSUMED AT HOME, AND THE AMOUNT EXPORTED.

About 60 to 70 per cent of the world's cotton production is grown in America, and this year's crop of about 11,000,000 bales will be worth about $2,200,000,000. Of this 11,000,000 about 3,500,000 bales, or 30 per cent, will be consumed by mills located in the Southern States, chiefly in the Carolinas and Georgia, and the remainder of the 7,500,000 bales will be shipped to the New England mills or exported.

THE GOLDEN ERA FOR THE MANUFACTURERS.

The manufacturers have been reaping golden harvests. Based upon every known economic law which should enter into the question, raw cotton has not sold within the last year within 100 per cent of a fair price. The shelves of the world are empty of dry goods; every market is clamoring for cotton goods. Manufacturers are booked up many months ahead and are frequently compelled to turn business away regardless of price. The sun of prosperity is shining with all of his resplendent rays upon every manufacturing establishment using cotton goods. The boom in cotton mill stocks is sufficient evidence of the state of unprecedented prosperity prevailing in the cotton manufacturing industry, world-wide. There is every indication that the cotton trade will continue its prosperity for years to come. That enormous profits are being earned is common knowledge; based upon supply and demand and the price of the manufactured product the producer should have received far higher prices than the highest price paid for raw cotton.

I wish to quote you the following figures as an indication of what could have been paid for the raw product. The range of prices on three sizes of combed yarns are:

	1914		1915		1916		1917		1918		1919	
	June.	December.	June.	December.	June.	December.	June.	December.	June.	December.	June.	December.
2–40s	$0.43	$0.38	$0.40	$0.50	$0.58	$0.85	$0.85	$0.90	$1.00	$0.95	$1.20	$2.50
2–60s	.55	.50	.52	.65	.55	1.05	1.10	1.15	1.25	1.20	1.55	3.50
2–80s	.75	.70	.72	.85	1.00	1.25	1.40	1.45	1.55	1.50	2.00	4.75

I also wish to quote you an exhibit which was introduced before the Senate Investigating Committee on the High Cost of Living:

	Cost of cotton.	Cost of article.
1 piece of gingham	$0.25	$4.50
1 piece of voile	.19¼	3.48
1 handkerchief	.01¼	.25
2 pair socks	.04¼	.50

It goes without saying that as the manufacturer and spinner are now under contract for the sale of cotton goods, many for six months to a year ahead and in some cases even to the spring of 1921, and as the speculators and manipulators have made enormous sales of spot cotton, that, therefore, all of these commitments must be covered. This will force active competition, release the combine which has been preventing the operation of the law of supply and demand, and will result for once in the producer receiving a fair price for cotton.

WHAT THE COMPARATIVE PRICE FOR COTTON SHOULD BE AND THE EFFECT OF A FAIR PRICE ON RURAL CONDITIONS IN THE SOUTH.

The American Cotton Association has an opportunity to render a wonderful service and to secure tremendous economic reforms to the commercial life of the South. The movement from the rural sections to the towns and cities can never be stopped, regardless of the crying need of production, until rural conditions are so improved and bettered that they will offer the comforts and necessities of life, including good roads, educational facilities, sanitation, and home comforts. It will be impossible to secure these without a profitable price for cotton, and they can be secured elsewhere. A profitable price for cotton must be based upon the cost of production, based upon supply and demand, based upon the price of the manufactured product. It must be a price that will enable the producer to compete with other lines of industry. It must be based upon the fact that cotton is the finest and most useful fabric in the world. Nothing else compares with it. Wherever it has had a fair chance it has competed successfully with wool, flax, and silk. Fleece lined it is warmer and more sanitary than wool; it is stronger and more durable than linen, and in its mercerized form it is as beautiful as silk. The only limit to the price of cotton, based upon the above conditions should be the price at which wool, linen, and silk are sold.

SAFE, SOUND FARMING THE SURE WAY TO IMPROVE CONDITIONS.

In order that best conditions may obtain and the producer get proper results from his efforts, I urge that he stick to safe, sound farming, planting sufficient food and feed crops to make the farm self-sustaining, planting of crops that can be cultivated and harvested under present adverse conditions with machinery, planting his surplus lands in cotton. I urge further that they secure and use every effort to stabilize seed, using only such seed as will produce the best cotton in their special sections. We must produce based upon the consumption and not the demands of the world; to disregard this law simply means commercial suicide, and that the surplus will be used to beat down the price on the heads of the producer.

THE AMERICAN COTTON ASSOCIATION AND THE NECESSITY FOR ORGANIZING THE SAME.

There was probably never a greater necessity for the organization of any association in America than for the organization of the American Cotton Association, with its economical reforms, its aims, objects, and purposes.

FARMING CONDITIONS AS NOW EXISTING.

The United States Census Bureau shows that there are 2,000,000 families in the South engaged in cotton production and the average is a fraction over five to the family. Last year, with a crop of less than 12,000,000 bales, would make an average of 6 bales to the family, in the matter of production. Sixty-two per cent of the cotton farmers of America are tenant farmers, and when you get close to the cotton producer you will find that the larger per cent of them, instead of being planters, are simply farmers, and their families live on corn bread and hominy. It will be found that the

entire family, father, mother, and children, get up at sunrise and labor in the fields as long as they can see. For the last 60 years, with a large per cent of the cotton farmers, it has largely been a question of existing from one year to the next. The cotton farmer has little more to do with cotton than to produce it. Cotton has failed to bring a profitable price to the South in the last 60 years. The price for which it has sold was based on slave labor and the cotton producer of the South has little to do with the marketing end of the proposition. He pays an enormous penalty and premium in the antiquated, wasteful, and uneconomic manner in which his product is handled; he pays an enormous assessment to middleman after middleman, still he is forced to compete on unequal terms with the half-starved, half-naked coolie laborer of India and Egypt, whose cost of production is far lower and cost of marketing, on account of economic conditions and reforms, far less than in America.

COTTON PRICE CONTROLLED BY EUROPE.

The price of cotton has been practically controlled by Europe for the last 60 years; it has brought wealth untold to every country where it is used commercially. It has enriched the coffers of the gambler and manipulator and has only brought poverty, illiteracy, and misery to the producer of the South. The cotton producer in the market place offers an opportunity for a painter to draw the picture of a man fighting life's battles at great odds, shackled with a millstone, standing on unequal terms with the buyer, having no voice in the grading or stapling of his product, the bale of cotton being an emblematic package of antiquated, crude, and wasteful methods of the past, accepting as a just settlement for his cotton the price set by Liverpool, from which has been deducted heavy penalties in the way of assessed charges. When this cotton reaches the shores of Europe after having passed through the channels of trade, paying tribute after tribute, it is the most disgraceful package in the world to-day. It should not be forgotten that between the producer and the market place and the consumer of cotton goods, the line is barred with toll gates, requiring the payment of an unjust and outrageous tribute, all of which is assessed against the producer and is an outrageous injustice to both producer and consumer.

ORIGIN OF THE AMERICAN COTTON ASSOCIATION—ORGANIZED TO PROMOTE ECONOMIC REFORMS AND THUS BETTER CONDITIONS OF THE PRODUCER AND BRING LASTING BENEFITS TO THE SOUTH AND NATION.

To meet existing conditions the farmers, merchants, bankers, business and professional men of the cotton-growing States met, with a determination to cooperate and organize the American Cotton Association. On the 19th day of May, 1919, the association was organized for the purpose of protecting the interests of the cotton producer and improving his conditions; to promote the economic regulation of cotton production to the end that the supply would be so adjusted to demand that the producer shall at no time be forced to sell his product at less than a fair and reasonable profit; to promote the intelligent diversification of crops and develop markets for such products other than cotton which may be profitably raised; to improve and enlarge present warehouse facilities and to secure additional facilities to the end that the producer may carry his cotton crop at a minimum of expense and physical damage and a maximum of security and financiability, or that the sale of the said crop will be stretched over a period of 12 months and be only sold when the manufacturer will pay a profitable price for the same, instead of 70 per cent of the crop being sold in the short harvesting period of three months under the head of distress or misery cotton as heretofore. This necessitates the formation of corporations for the erection of sufficient warehouses, where warehouses do not now exist, in each and every cotton producing county and parish in the cotton belt, owned and controlled by the producer and friendly allied business interests, operated under State or Federal warehouse acts, sufficient to warehouse the cotton produced in said county or parish, in time for the 1920 crop. Also for the purpose of broadening the markets; for enlarging and increasing the uses of cotton and cotton goods; to improve and increase transportation and distribution facilities; to collect information both as to domestic and foreign consumption of cotton, the state of trade, the extent of acreage, the price and condition of the crop, and all other information of practical interest to the cotton industry, and to disseminate the result to every member in every community, touching on the course to be pursued to secure the best results in view of the facts disclosed; the removal of antiquated, wasteful, and uneconomic methods in the handling of the cotton crop so as to place the same and the marketing thereof upon a strictly business basis in justice both to the producer and consumer of cotton goods; to promote the direct selling of cotton, both at home and abroad; remove the unnecessary middleman, as a matter of simple justice both to the producer and consumer; for the purpose of promoting economic reforms in

the baling of cotton; to enact constructive legislation, both State and National, that will result in assisting to place in the hands of the producer and allied friendly business interests the machinery of ginning, warehousing, grading, transportation, and marketing of the American cotton crop; the efficient organizing and capitalizing of county cooperative marketing societies and State cooperative marketing societies, so that the grower will own and control the agencies to market his products direct to the consumer, both in this country and in Europe.

EXTENT OF THE ORGANIZATION OF THE AMERICAN COTTON ASSOCIATION AND ITS METHOD OF OPERATION.

The American Cotton Association in its organization extends into the smallest division of the county and on up with its machinery into the county, State, and National organizations, its membership electing officers to represent each subdivision from the smallest on up through the county, State and National organization, so that it is democratic in form and every member has a full voice in the organization.

HAS REMOVED PREJUDICE AND BROUGHT CLEARER UNDERSTANDING.

The organization of the American Cotton Association has not only brought a clearer understanding of the cotton situation and the various other rural and commercial conditions of the South to its members and friends, but it has resulted in removing much sectional prejudice which has heretofore existed on account of misunderstanding.

NECESSITY FOR SUBDIVIDING THE WORK OF THE ASSOCIATION.

The American Cotton Association has grown so enormously that it is now absolutely necessary to subdivide the work and systematize the same. I urge that the directors give the most careful attention to the dividing of the association into different departments and to the securing for the heads of the different departments men thoroughly competent to handle them, officers both sincerely and deeply interested as a matter of service in the association and the reforms for which it is working, and that these officials be furnished with the necessary assistants.

WHAT WE HAVE ACCOMPLISHED TO DATE—OPERATION OF NATIONAL HEADQUARTERS.

For the purpose of giving my entire time to the organization of the association I enlarged my office at St. Matthews, from which I had been conducting a campaign on publicity and economic reform in the cotton industry, for a long time at my own personal expense. The American Cotton Association was created in May, 1919, and in less than 12 months thereafter it has covered the entire cotton-producing section of America. It has put into force and effect economic reforms that will bring tremendous benefits to every legitimate line of the cotton industry, even including the consumer of cotton goods. It is conceded to-day that this great organization will bring almost unthinkable benefits to the entire commercial life of the South; in fact, that as a result of the organization of the American Cotton Association a new South will come into existence, a greater South, and that following this the South will play an important part in the building of a greater nation.

TREMENDOUS INFLUENCE OF THE AMERICAN COTTON ASSOCIATION RECOGNIZED THROUGHOUT THE WORLD.

The American Cotton Association is recognized to-day, not only throughout America, but in every section of the world where cotton is used commercially. It is receiving the cooperation and support of business and professional men, as well as the producer, not only in every cotton-producing county and parish in America, but in many other sections of the Nation. The press, not only throughout the South but throughout the Nation and abroad, are to-day supporting the association and the economic reforms for which we have been and are now working. This great association will not only bring tremendous benefits to the cotton producer, but to the entire agricultural and business interests of the South and to the varied allied business interests that handle the production from these States. It is the first time in the history of the cotton industry that control of the market has been wrenched from the hands of the bear gambler and manipulator, and they have been prevented from crashing the market at their own sweet will. They have made a most desperate effort during the past year to break the market, and have been prevented from doing so by the organization of the American Cotton Association, and as a result of the efforts put forth by this

association in the holding of cotton and the exposure of their methods; and it is the consensus of opinions that millions of dollars have been saved to the producer as a result of the work of the association. The American Cotton Association has kept a close check on all statistics; have issued reports at regular intervals covering all phases of the cotton industry that bear on price or production, from the growing crop on up through supply and demand and the price for which the manufactured product is being sold, conducting its investigations both in the domestic and foreign markets. Its reports to-day carry marked influence in the cotton industry, and are handled by the press both at home and abroad, including the statistical journals, exchanges, and manufacturing periodicals.

ADDITIONAL HEADQUARTERS NECESSARY TO ACCOMMODATE THE VOLUME OF BUSINESS.

Immediately following the organization of the association in May, 1919, we opened up headquarters in Atlanta, Ga., and both offices since that date have been handling a tremendous volume of duties. The success in handling the tremendous volume of work at St. Matthews has been largely due to the untiring, unselfish, and devoted services of Mr. J. M. McCabe, my private secretary.

FINANCES AND THE NATIONAL ASSOCIATION.

The matter of finances for the national association was an extremely serious one, no finances being available until after the permanent organization of the national association in each State and the States necessarily requiring all finances they could raise for State organization without helping the national organization until they were sufficiently organized in each State. I was determined to assume all financial risk and responsibility and make no request of the board for arranging finances unless our plans were completely successful; I have therefore paid personally a large amount of the expenses of the national association, with the exception of a small amount collected from charter memberships and otherwise. The financial assistance rendered by South Carolina, Georgia, North Carolina, and Texas for national headquarters was soon exhausted, these being the only States assisting in financing national headquarters, and I have therefore personally paid all expenses of national headquarters since that time. On account of the tremendous volume of work, regardless of the fact that we have economized in every way possible and have had the assistance and cooperation of a number of the leaders, who have worked at tremendous sacrifice purely as a matter of service, still the absolutely necessary expenses which I have been forced to pay have amounted to quite a large sum. As the experimental stage has now been passed, the first duty of the board of directors will be the arranging for the necessary finances for the national association. The matter of dues and the division of the same between the county, State, and national associations has received a great deal of attention from the membership of the entire association. The association has not only membership but regular machinery and officers from the school districts up through the county and State associations, requiring finances for operating the county and parish branches, the State and the national organizations.

HEADQUARTERS IN EACH ORGANIZED STATE.

In the State thoroughly organized regular State headquarters are kept in permanent operation with their necessary forces, many of the counties in these States have headquarters with necessary forces, combining for the purpose of carrying into effect and force the aims, objects, and purposes of the association, pushing its reforms, all of which requires financial assistance, regardless of the fact that the membership largely performs their duties as a matter of service. Many of the counties claim that the division allowed for the operation of the county associations is insufficient. The amount proposed for national headquarters under the present arrangement will prove entirely inadequate. The amount paid in in dues will bring tremendous returns, the most serious consideration being the collection of sufficient sums and the proper apportionment of the same to enable the financing of the county, State, and national associations, thus permitting them to properly function and secure the economic reforms which will being such tremendous benefits to the cotton industry and the entire commercial life of the South. Under no conditions do I wish the board to make any arrangements to reimburse me for finances spent unless they are thoroughly satisfied that these expenditures have been entirely justified and that the benefits accruing from the same have been many times in excess of the amount spent.

VOLUNTARY SERVICES AND SACRIFICES BY MEMBERS.

Men have served in both offices untiringly, unselfishly, and devotedly, at great sacrifice purely as a matter of service in the interest of this great organization. It has, of course, been necessary in the carrying on of this tremendous volume of duties to employ stenographers and assistants; however, without exception the entire force now assisting us has been deeply interested in the success of the association, they have cheerfully contributed extra hours and efforts without stint for the purpose of assisting in the great work.

It would be impossible to mention individually all the men who have rendered unselfish and devoted service at great sacrifice and without reward in this work, however, I feel that it would be unjust to myself and to the association if I failed to mention Col. Thomas J. Shackelford, who laid aside his large law practice and other important business affairs and at a great personal sacrifice has rendered services that can not be measured in words or money. Col. Shackelford came to our assistance soon after setting up the machinery in Atlanta, and has stuck with us through thick and thin. With his talents and ability and his unselfish devotion he has rendered a service of immeasurable benefit, not only to the American Cotton Association, but to the entire South. The association should use every effort to arrange to maintain him in some high official capacity.

Following the severence of our connection with Messrs. Hill & Ward, Col. Harvie Jordan, a veteran in the battle for the commercial freedom of the cotton industry and a man eminently qualified both from a standpoint of ability and training for the position, and a man with an international reputation as an expert in the cotton industry, as a matter of service took charge as national campaign manager of the Atlanta office. With the assistance of these men and many others, at national headquarters and with the assistance and cooperation of leaders in the various States and State organizations, limiting our efforts only to our ability to finance the work, we have pushed the association, its organization, its economic reforms, and its aims, objects and purposes, throughout the length and breadth of the cotton belt, and in every section of America where cotton is produced. We have used our every effort to protect the interests of the cotton producer and to improve his conditions. As chairman of the finance, organization, and membership committee, Col. Shackleford will render a detailed report; as national campaign director, Col. Harvie Jordan will render his report.

Mr. L. S. Tomlinson, president of the North Carolina Association and a member of the national board of directors, a man who has rendered wonderful service, and who is chairman of the auditing committee, will render a report in detail concerning the finances of the association.

ORGANIZATION AND ECONOMIC REFORMS.

A campaign of organization has been pushed into every cotton-producing county and parish in the cotton belt for the purpose of giving a clear understanding to our aims, objects, and purposes, and to secure memberships, this campaign having as its objective 1,000,000 members, composed of producers, business and professional men

PUSHING ECONOMIC REFORMS TO ELIMINATE THE TREMENDOUS UNECONOMIC WASTE IN THE COTTON INDUSTRY.

At the same time we have been pushing in every way possible the economic reforms absolutely necessary to the cotton industry, realizing that it would be impossible to succeed without removing the antiquated, wasteful, and uneconomic methods and conditions in the handling of cotton which are throttling the cotton industry, and that in justice to the producer, as well as the consumer of cotton goods, uneconomic waste, amounting to around as follows $179,000,00

Country damage	75,000,00
Sampling and repacks from waste	22,500,00
Excessive freight, land and water	15,000,00
Recompression	19,000,00
Excessive storage and insurance charges	15,000,00
Undergrading	25,000,00

Excessive tare must be removed; that it is a sinful waste and a menace to our agricultural interests to throw away by waste the value of one year's crop out of every ten

THE AMERICAN COTTON ASSOCIATION RECEIVES COOPERATION.

In our campaign we have met with the full cooperation of the great United States Department of Agriculture with its 21,000 officers and employees, 4,000 in Washington and 17,000 in the field. They have a number of men working as a matter of service on account of their great interest in agricultural conditions. This association has received wonderful cooperation and assistance from this department and I urge in every State that we take advantage of this wonderful opportunity, and that the producer cooperate with this department in every way possible. The extension force of the United States Government, the various divisions of the warehouse department, the Bureau of Crop Estimates, the Census Department, and various other governmental departments have all rendered us valuable assistance, service, and cooperation. We have also met with the full cooperation and assistance of the State agricultural department, through the commissioners of agriculture; the State Bankers' Association, through their officials; the farmers' unions, and, in fact, all organizations interested in the upbuilding of the South and greater economic reforms.

WAREHOUSES.

In addition to having a representative membership in every cotton-producing State in America and having permanent organizations in many States in operation, we have succeeded in having more warehouses erected than in any period since the War between the States, and are using strenuous efforts to put into effect and force the necessary plans that will assure the erection of warehouses in every cotton-producing county and parish in the belt, locally owned and controlled by the producers and friendly allied business interests, sufficient to hold the entire production of cotton in these several counties in time for the 1920 crop, so that the sale of cotton can be stretched over a period of 12 months instead of 70 per cent being sold largely into the hands of the gambler and manipulator at sacrifice prices, this resulting in furnishing the gambler and manipulator with the opportunity to reap tremendous profits and heavily penalizing the legitimate consumer of cotton goods, as heretofore in the three short harvesting months. This assures the reduction of an enormous waste, as shown by the United States Census Department and the Department of Agriculture, amounting to around $75,000,000 annually, and in addition to this will bring tremendous additional benefits to the producer and consumer of cotton goods.

PUBLICITY.

We have conducted a world-wide campaign on publicity, both at home and abroad. Appreciation for the wonderful services and support given us by the press in the South can not be measured in words. For the purpose of having a clearer understanding we have written personal letters to every Senator and Congressman and every governor in America; every college president and every bank president in America and to every manufacturer, not only in America, but throughout Europe. The result of this campaign has proved wonderfully beneficial, not only to the producer but to the entire South. It has removed prejudice and enlisted active cooperation and has resulted in clearly pointing out the necessity of economic reforms; the necessity of cotton bringing a profitable price to the producer so as to enable him to improve rural conditions and compete with other lines of industry and bring the population back to the rural sections from the towns and cities. For the first time in 60 years as a result of his publicity the producer's side of the question has been presented to the world and he has received a verdict in his favor. The wonderful support given the association throughout the Nation and abroad clearly demonstrates the tremendous benefits to be secured in this way. A number of the States are issuing State publications. The matter of a great national publication has been receiving marked attention from the membership of the association. The by-laws stipulate that such a publication is to be furnished to the members. This matter is of outstanding importance and merits the closest attention of the board of directors and membership, and should be definitely acted upon at this convention.

LEGISLATION.

We have succeeded in having put on the statute books, both State and National, constructive legislation that will prove of tremendous benefit to the cotton producer and friendly allied business interests, and we have also pending national legislation of great economic importance. Among the pieces of constructive legislation passed in South Carolina is the South Carolina warehouse act, creating a board of 10 members

appointed by the governor upon the recommendation of the American Cotton Association. This act places the economic reforms for which the association is working in the hands of this board, including the handling of cotton through its various stages from the time it reaches the gin until the time it reaches the manufacturer.

COMMERCIAL COURSES IN COLLEGES AND UNIVERSITIES.

We have induced a number of the leading colleges in the South to put on full commercial courses, especially including the business side of production, including the marketing of farm products, especially the marketing, stapling, and fibering of cotton and the economic reforms on the production side of cotton, so that the same will be put on a safe, sound business basis. Recognizing the wonderful benefits to be secured by a proper system of warehousing and cooperative marketing of cotton and other farm crops and a licensed grader for cotton, they have joined us in a number of States. The result of this cooperation has proved tremendously beneficial and is bound to become uniform throughout the length and breadth of the entire cotton belt.

OTHER REFORMS.

In addition to accomplishing those above and many other needed refroms, we have brought clearly before the producers and other allied business interests of the South the vital need of cooperation and the absolute necessity of the organization of the association, so that to-day they are determined to complete the organization of the association and through cooperation put into force and effect the necessary constructive legislation that will enable the producer as a result of this united cooperation to put the cotton-producing industry of the South upon a safe, sound basis and place in the hands of the producer and allied business interests the machinery of warehousing, grading, marketing, and other necessary reforms, which will result in enormous benefits to the producer and every legitimate line of the cotton industry, including the consumer, and bring direct, incalculable benefits to the commercial life of the South and indirect benefits to the entire Nation.

WHAT WE CAN ACCOMPLISH AND HOW—A BROAD AND LIBERAL POLICY.

The first step necessary to the accomplishment of our task is to base it absolutely on the solid ground of justice and fairness; our policy is broad and liberal, based upon the truth.

EXPERIMENTAL PERIOD PASSED.

We have long passed the milepost marking the experimental stage; as a result of the tremendous benefits our organization has already secured it is clearly demonstrated that the permanent organization of the association and its reforms are necessary to the full development of the commercial life of the South.

CONVENTION TO ACCOMPLISH CONCRETE RESULTS.

This convention has been called for a definite purpose, for concrete definite results and benefits. We have prepared a program which places in the hands of special committees, representing the various business interests of the various sections of the South, the problems necessary to be solved, so as to put into force and effect the reform for which we are working, thus bringing to the South the tremendous permanent benefits which are justly hers.

CONSTITUTION AND BY-LAWS AND CHARTER.

The growth of the association necessitated the securing of a regular charter; after consulting with the various members and upon the advice of the very best legal counsel we secured a charter in Delaware, it being conceded that this was the most advantageous charter that we could secure in America, and our counsel being very positive that it was necessary to secure such a charter.

Mr. B. F. McLeod, a member of the national board of directors, together with myself and others, has given a great deal of time and study to the constitution and by-laws, it being necessary to make many important changes in some, on account of the growth of the association. Mr. McLeod as a result of long and painstaking work has prepared a very complete set of by-laws and constitution so as to meet all the requirements of the association. He will present this to the board of directors, and I urge that the board take the necessary action to ratify this constitution and by-laws and put the same in legal shape for our full protection.

PLANS FOR FUTURE OPERATIONS.

We deem it absolutely necessary to continue the organization of the association under the plans we now have in operation until our membership reaches the goal of 1,000,000 members and until we are represented by officers in every school district in the cotton-producing section of America, membership being the first matter of importance.

WAREHOUSES THE FOUNDATION STONE OF SUCCESS.

We consider warehouses the mudsills and foundation stones necessary to our success and I urge that plans be arranged at this convention to absolutely assure the certainty of carrying the drive for warehouses into every county and parish of the cotton-producing section of America, so that we will have sufficient warehouses to care for the 1920 crop. It is imperative that we stretch the sale of our cotton over a period of 12 months, as has been heretofore stated, selling only when the manufacturer will pay a profitable price, instead of selling 70 per cent of our crop in the three short harvesting months into the hands of the manipulator and gambler. These warehouses should by all means be locally owned and controlled, and operated by Government-licensed graders. The buyer has no more right to grade cotton than the seller and actual statistics issued by the Department of Agriculture show the enormous loss to the cotton producer as a result of country damage and undergrading, and sets out clearly the necessity for a change.

ASSASSINATION OF THE AMERICAN BALE OF COTTON.

In connection with these warehouses should be constructed ample room with proper lights for the use of the grader and for the storage of samples, the grade of cotton should be stenciled on the bale, and the sample marked for identification and stored in the sample room. We are absolutely opposed to the assassination of the bale of cotton, the sampling, resampling, and reconditioning, amounting to around 150,000 bales per annum, which loss falls largely on the producer. It is urged that the custom followed in other countries and now being urged by the American Cotton Association of drawing samples at the gin be strictly enforced and that the cutting and recutting and drawing of samples from the American cotton bale, which results in such enormous loss, be strictly prohibited.

EXPORT CORPORATIONS TO BE ESTABLISHED.

It is of vital importance not only to the producer and for his protection and to furnish him with a means of reaching the markets of the world and securing a profit for his products which is justly his, but also of vital importance to the entire commercial life of the South, that an export corporation with sufficient capital be organized for the purpose of putting him in direct touch with the foreign markets. Money invested in such a corporation would certainly bring handsome returns and is absolutely impossible to receive the necessary protection as long as the machinery of marketing is entirely in the hands of adverse business interests. An export corporation being almost similar to a bank and really a financial corporation that would prove of tremendous financial benefit to the entire South, the bankers should take the lead in the formation of this corporation.

NECESSITY OF ECONOMIC BALING OF THE COTTON CROP.

The American bale of cotton is the most disgraceful package that appears in the markets of the world. There has been no improvement in the system of baling for the last 60 years. In its present form the American bale carries an enormous penalty which the producer is forced to shoulder. In addition to this unfair and outrageous assessment cotton carries a freight rate from three to four hundred per cent higher than any known commodity. A bill is now pending in the United States Senate, which was introduced by United States Senator Ransdell, at the request of the American Cotton Association, which, when enacted into law, will result in a proper and decent baling of cotton and will save much to the producer and the consumer. This bill should meet the support not only of the producer and consumer, but in addition should meet the support of every man interested in economic reforms.

LADIES AUXILIARIES.

We urge that steps be taken for the enrollment of ladies in the association, either as an auxiliary association or as direct members. In many sections the ladies are rendering valuable service and are intensely interested in the formation of the association.

THE COLORED FARMER.

The matter of the handling of the Negro farmer has been brought to my attention from practically every section, it being pointed out that the Negro farmer will receive his full share of the benefits and advantages secured and that they should certainly contribute toward the financing of the association. In addition to this I have received many requests from colored farmers urging that we permit them to form Negro auxiliaries. This question should certainly receive the careful consideration of the officials of the association.

THE GINNER URGED TO ERECT WAREHOUSES.

The fact that the interests of the ginner and the producer are so closely interwoven would point clearly to the mutual advantage of both for the ginners to join the association, either as an auxiliary or direct, and I urge in the strongest terms that the ginners be requested to erect warehouses to be used in connection with their ginneries, which will bring them a source of revenue and also prevent the enormous damage to cotton lying on the ground at the gins. In addition to this I have received many urgent requests that the matter of the ginner collecting 10 cents per bale of cotton at the gin be given the careful consideration of the association, it being pointed out that this will assist materially in financing the association and would prove a wonderful paying investment for the producer.

SPINNERS CONFERENCE.

It is claimed that the producer and the manufacturer are each one half of an industrial whole, it would certainly appear that the manufacturer as well as the producer should be mutually interested in the economic reforms what would result in removing the antiquated, wasteful, and uneconomic methods in the handling of the American cotton crop. It would also appear that not only the producer but the manufacturer of cotton goods, in justice to the consumer, should cooperate for the purpose of promoting direct dealing and removing the unnecessary middlemen. Considerable correspondence has been passed between the manufacturers, both domestic and foreign, and the association along this line. I feel convinced that a conference between representatives ot the manufacturers, both domestic and foreign, and the members of the association, is of vital importance for the above-named purpose and that such a conference will bring tremendous benefits to every legitimate line of the cotton industry.

STATISTICS.

The matter of collecting statistics is of tremendous importance to the producer. He should be correctly informed, not only as to the growing crop and price, but also as to the demand and the price for which the manufactured product is selling. Under the present machinery for securing this information the association needs very much the services of an expert statistician, with necessary assistants; noney spent for these services would bring many times its returns in money saved. While statistics gathered by the Department of Agriculture we feel sure are eminently fair, and their cooperation with us has been of a most friendly nature still on account of the limitation of their appropriation it is impossible to furnish at frequent intervals and in full, detailed statistics that should be placed in the hands of the producer, of the various statittical reports issued on growing crops; in fact, every statistical report, with the exception of the reports issued by the Government and by the association is issued by people interested in the buying end of cotton and it is perfectly natural that they should gather statistics of interest to that side of the cotton industry, so as it now is the interests of the producer suffer fearfully on account of the lack of correct statistics that would frequently have marked bearing upon bringing higher prices for cotton.

CONSTRUCTIVE LEGISLATION.

I have appointed a special committee on constructive legislation. In addition to the constructive legislation which we have already had enacted, it is of termendous importance that we secure uniform constructive legislation in each of the cotton growing States, covering a number of matters of tremendous importance to the economic reforms in the cotton industry. In addition to this, national constructive legi-lation of outstanding importance should receive special attention. For the purpose of securing these benefits, the committee on legislation should name a standing committee from their number and should make a careful study covering this question

and should appoint a special subcommittee to appear before the various legislative bodies both State and national.

Col. W. G. Turner, of Memphis, Tenn., has rendered such outstanding service to the association that I feel that I would be recreant to my duty should I fail to mention this. Col. Turner is intensely interested and has given years of work and study to economic reforms. He is the chairman of the committee on patents, inventions, improvements, and processes, and I urge that the representatives from the different States consult with Col. Turner and his committee concerning these matters and receive the benefit of their research and judgment. Representatives of a number of inventions, patents, and processes are prepared to give information concerning the same and there are several representatives of warehouse construction present prepared to give full and detailed information concerning the furnishing of warehouses, which information should be of great benefit.

DEPARTMENT OF AGRICULTURE OF THE UNITED STATES REPRESENTED.

Various departments of the United States Department of Agriculture are represented at the convention and the members of the association should take advantage of this opportunity to consult with them for the purpose of securing full information and cooperation.

JUSTICE SHOULD MEASURE DEALINGS BETWEEN BUYER AND SELLER.

The producer who sells cotton should be placed on terms of equality in every respect with the buyer who purchases it. This includes more than at first sight might appear. Among other things the producer should have equal information with the buyer, the law affecting the buying and selling of cotton should be poised in equal justice between the producer and buyer. Commercial machinery which in any way affects the marketing of cotton should be so regulated as to give the buyer and seller an equal chance. The producer should have the benefit of organization to the same extent as the buyer. Investigation by the Department of Agriculture in primary cotton markets has shown some very interesting results. Thousands of samples have been classified and information obtained from farmers as to the prices which they have received for their cotton. The prices paid on the same market on the same grade of cotton on the same day varied from $2 to $15 a bale, and cotton of 1⅛ length of staple has sold for considerable less than cotton of three-fourths inch length of staple. This means that the farmer has not been getting the value of his cotton. It is clear that the individual farmer can not solve the trouble alone; through the American Cotton Association he can form cooperative marketing societies, employ a high-class technical man or men who can class and staple his cotton and secure the best market for the same. These organizations are being formed in many sections of the belt.

LOSSES FROM UNDERGRADING SHOWN BY THE DEPARTMENT OF AGRICULTURE.

Losses from undergrading as shown by the United States Department of Agriculture amount to around $25,000,000 per annum. Every State in the cotton belt should adopt the arrangement made in South Carolina, where cooperative arrangements have been made with the United States Department of Agriculture for the purpose of securing the necessary licensed graders. The formation of corporations for building warehouses and the operation of cooperating marketing associations as has been heretofore outlined, thus placing the machinery of marketing in the hands of the producer and allied business interests. This arrangement alone will save on the American cotton crop around $25,000,000 on undergrading, and will save an enormous loss from country damage and bring tremendous benefits to the producer and the consumer. It will add materially in bringing the manufacturer in direct touch with the producer and thus result in direct dealings and enormous direct reforms.

ARTIFICIAL RESTRAINTS SHOULD BE REMOVED.

The world needs our cotton goods and our raw cotton, but we have never made any effort to open up the markets and get our cotton and cotton goods into these markets. We must produce the machinery for marketing; a people not commercially free can not enjoy the fruits of freedom. Artificial trade laws and restraints to trade continually hold up to the farmer the dread of overproduction. We are entering upon a period of intensity, world-wide. Europe to-day is sending her representatives into not only every port but into the remotest corners of the world. It may

be that the coolie cotton producer of India and Egypt will bear the yoke of the hewer of wood and the drawer of water; this, however, does not make it just. The day has arrived when nation should trade with nation and the waters of the world should be free. The Anglo-Saxon race of the South has been taught that no heroic sacrifice is ever lost; that the characters of men are molded and improved by what their fathers have done; that treasured up in American souls are all the great deeds of the Anglo-Saxon race from Agincourt to Bunker Hill and on down to the Battle of the Marne and the crashing of the Hindenburg line, their ancestors have felt the inspiration of battle on every field where civilization has fought for the last thousand years, and one of the greatest changes we are facing to-day is that peace shall mean liberty and freedom, both political and commercial; unrestrained and unrestricted commerce, which will link all mankind in one brotherhood of mutual dependence and interest.

RECOMMENDATIONS.

I recommend among the propositions to be taken up among the first and most important the following:

In justice to the producer and the consumer it is absolutely necessary to remove uneconomic and wasteful methods in the handling of our cotton crop; the unnecessary middleman must be removed; economy and efficiency are absolutely necessary to the successful operation of any business. This demonstrates that the cotton-producing industry must be placed upon a strictly business basis, and to do this it is necessary to put into effect and force without delay the reforms I am recommending.

The American Cotton Association has not only brought tremendous benefits to the entire commercial life of the South, but it has also clearly brought to light the absolute necessity of its organization for putting the cotton industry upon a business basis and bringing to the cotton-producing industry and the entire commercial life of the South the benefits that are justly theirs.

For the purpose of bringing the South into its own, building a greater South, and through the building of a greater South to assist in the building of a greater Nation, I urge:

1. That all necessary steps be taken for the permanent organization of the association, so that it will cover each and every school district in every county in the cotton-producing section of America.

2. I urge that we take all necessary steps to prevent the sinful outrageous waste resulting from uneconomic conditions, amounting to around $200,000,000 per annum, or a total of one entire cotton crop out of every 10 years; (*a*) first, by arranging the necessary capital and the erection of sufficient warehouses and the creating of cooperative marketing associations owned and controlled by the cotton producers and friendly allied business interests in every cotton-producing county and parish in the cotton belt sufficient to hold the cotton produced therein and for the purpose of promoting direct sales and cooperative buying, so that the sale of cotton can be stretched over a period of 12 months instead of 70 per cent being sold in the short harvesting period of 3 months, as heretofore, sales being only made when the manufacturer will pay a profitable price to the producer. (*b*) In connection with warehouses I urge that the members and the board of directors use all efforts to secure the cooperation of the ginners to the end that they erect warehouses to be operated in connection with their ginneries and refuse to permit the placing of cotton on the ground after ginning.

3. I urge that the Nation and State associations take all necessary steps for making arrangements with the agricultural department and the extension forces for the purpose of securing their assistance and cooperation in pushing the organization of the association, the raising of capital for the erection of warehouses and cooperative marketing associations, and for securing licensed graders who shall pass upon the grade of all cotton placed in warehouses and sold. This will result in tremendous benefit to the cotton-producing industry. South Carolina has already made such arrangements.

4. For the purpose of placing the machinery necessary for economic reforms and the machinery of marketing in the hands of the producer I urge that similar legislation to the legislation passed in South Carolina be passed in each and every cotton-producing State of the belt, creating a warehouse board and thus placing cotton on a strictly business basis.

5. I further urge that the members of the association and its officials use all efforts possible to have national legislation passed creating a commission for the purpose of visiting the various countries of the world and enlarging the market for cotton and other agricultural products.

6. I further urge that the board of directors and members of the association use all efforts necessary to have legislation enacted creating a board of awards and the estab-

lishment of a hall of service for the commemoration of the names of those rendering signal service to the various lines of agricultural development, and thus developing a greater agriculture.

7. The failure of the railroads to erect sheds over cotton platforms for the protection of cotton placed thereon for transportation, and the failure of the compress companies in the various sections to erect sheds to protect cotton waiting for compression, resulting in enormous damage and loss to the producer on account of weather damages; I therefore urge that the directors, State associations, and members use every effort possible to have sheds erected by the railroads and compress companies for the protection of this cotton.

8. I urge the State officials and the members of the association through special committees and as individuals use every effort possible to induce the leading colleges of agriculture in the cotton-producing section to install full commercial courses, especially including the business side of production, including the marketing of farm products, especially the marketing, stapling, and fibering of cotton and economic reforms touching on production and the producing side of cotton especially. Six of the leading agricultural colleges of the South have recently installed these courses at our request.

9. Direct marketing is now in effect and force in various lines of perishable products and has proved highly beneficial. Direct marketing of cotton both at home and abroad means simple justice to the producer and the consumer, I therefore urge that all necessary steps be taken by the national board of directors, the State officials, and directors in each and every cotton-growing State for the purpose of effecting direct sales both at home and abroad.

We have demonstrated that this can be done by actual sales, and for the purpose of handling the foreign trade export corporations should be formed.

The following report on supply and distribution, production, consumption, and world spindles is accurate and was prepared from all governmental sources and from investigations and reports of leading exports:

Consumption of mill takings of American cotton (year ending July 31, except for 1913–14, which ended Aug. 31).

Country.	Aug. 1, 1919–Jan. 31, 1920.	1918–1919	1917–1918	1916–1917	1915–1916	1914–1915	1913–1914
	Bales.	*Bales.*	*Bales.*	*Bales.*	*Bales.*	*Bales.*	*Bales.*
Total	6,097,000	10,234,000	10,878,000	12,746,000	13,069,000	13,243,000	14,273,000
United States	3,143,000	5,590,000	6,383,000	6,470,000	6,086,000	5,375,000	5,383,000
Canada	100,000	198,000	250,000	191,000	208,000	185,000	150,000
Great Britain	1,446,000	2,044,000	2,349,000	2,907,000	3,219,000	3,209,000	8,360,000
Continent	1,042,000	1,612,000	1,319,000	2,724,000	3,036,000	3,950,000	
Japan and Mexico	366,000	790,000	577,000	454,000	521,000	524,000	380,000
Ginnings	10,312,000	11,906,000	11,248,000	11,364,000	11,068,000	159,060,000	13,983,000

NOTE.—The figures for the United States and Canada represent the consumption, while those for Great Britain, Continent, Japan, and Mexico represent mill takings. The figures for the United States were collected by the Bureau of the Census, those shown for Canada were taken from the Financial and Commercial Chronicle, while those for the other countries were taken from the reports of the Liverpool Cotton Association.

Supply and distribution of cotton in the United States for the period from Aug. 1, 1919, to Jan. 31, 1920.

Item.	All kinds cotton.	American cotton.
	Bales.	*Bales.*
Supply aggregate	14,892,443	14,515,191
Stocks Aug. 1, 1919, total	4,286,785	4,203,593
Gin. from crop of 1919 to Jan. 16	10,311,598	10,311,598
Imported Aug. 1 to Jan. 31	294,060	
Distribution aggregate	14,892,443	14,515,191
Exported	3,780,395	3,775,958
Consumed	3,143,201	2,972,851
Stocks Jan. 31:		
In mills	1,974,416	1,900,819
In public storage	3,760,504	3,713,043
Elsewhere (by deduction)	2,233,927	2,152,520

Probable stocks of American cotton on July 31, 1919, and Jan. 31, 1920.

Location.	July 31, 1919.	Jan. 31, 1920.
Total	5,965,000	10,434,000
In American mills	[1] 1,252,000	[1] 1,901,000
In public storage in America	[1] 2,180,000	[1] 3,713,000
In ports and elsewhere in America	[2] 775,000	[1] 2,153,000
In British mills	[2] 110,000	[4] 74,000
In British ports	[6] 503,000	[4] 834,000
At sea in Britain	[4] 254,000	[4] 488,000
In continental mills	[2] 175,000	[5] 307,000
In continental ports	[6] 292,000	[4] 383,000
At sea to continent	[6] 194,000	[4] 331,000
In mills and elsewhere in other countries	[7] 250,000	[7] 250,000

[1] Census.
[2] Hester's Annual Report.
[3] British mill and port stocks July 31, 1919, plus imports for six months ending Jan. 31, 1920. British spinners takings and exports, British port stocks Jan. 31.
[4] Liverpool Cotton Association.
[5] Continental mill and port stocks and afloat to continent July 31, 1919, plus 1,353,000 exported from United States and 49,000 from United Kingdom to Continent during six months, 1,042,000 takings by continental mill and 331,000 afloat to Continent and 383,000 at continental ports Jan. 31, 1920.
[6] Cotton Gazette, Liverpool.
[7] Estimated.

Probable stocks of American cotton on July 31, 1914 to 1919.

[In thousands of bales.]

Location.	1919	1918	1917	1916	1915	1914
Total	5,985	4,147	3,844	5,053	7,258	4,2[illegible]
In American mills	[1] 1,252	[1] 1,402	[1] 1,408	[1] 1,490	[1] 1,392	[1] 612
In public storage in America	[1] 2,180	[1] 1,689	[1] 838	[1] 1,037	[1] 1,749	[1] 415
In ports and elsewhere in United States	[2] 775	[2] 250	[2] 330	[2] 400	[2] 750	[2] 35
In British mills	[3] 110	[3] 100	[3] 160	[3] 200	[3] 200	([4])
In British ports	[5] 503	[5] 108	[5] 154	[5] 564	[5] 1,198	[5] 618
At sea to United Kingdom	[6] 254	[6] 53	[6] 97	[6] 146	[6] 41	[5] 35
In continental mills	[3] 175	[3] 150	[3] 300	[3] 500	[3] 1,000	[3] 1,780
In continental ports	[5] 292	[6] 95	[5] 229	[5] 324	[5] 605	[5] 575
At sea to continent	[5] 194	[5] 50	[6] 103	[5] 192	[5] 148	[5] 63
In Japanese, Canadian, and in mills in other countries.	[2] 250	[2] 250	[2] 225	[2] 200	[2] 175	[2] 150

[1] Census.
[2] Estimated.
[3] Hester's annual report.
[4] Included "In Continental Mills."
[5] Cotton Gazette, Liverpool.
[6] Liverpool Cotton Association.

In British mills, [3] 110, [3] 100, [3] 160. [3] 200, [3] 200, ([4]).
In British ports, [5] 503, [5] 108, [5] 154, [5] 564, [5] 1,198, [5] 618.
At sea to United Kingdom, [6] 254, [6] 53, [6] 97, [6] 146, [6] 41, [5] 35.
In continental mills, [3] 175, [3] 150, [3] 300, [3] 500, [3] 1,000, [3] 1,780.
In continental ports, [5] 292, [6] 95, [5] 229, [5] 324, [5] 605, [5] 575.
At sea to Continent, [5] 194, [5] 50, [6] 103, [5] 192, [5] 148, [5] 63.
In Japanese, Canadian, and in mills in other countries, [2] 250, [2] 250, [2] 225, [2] 200, [2] 175, [2] 150.

[1] Census.
[2] Estimated.
[3] Hester's annual report.
[4] Included "In continental mills."
[5] Cotton Gazette, Liverpool.
[6] Liverpool Cotton Association.

World's probable carry-over of cotton on July 31, 1919.

Location.	Quantity.	
	All kinds.	American.
	Bales.	*Bales.*
Total	[1] 9,402,000	[1] 5,985,000
In American mills	1,303,000	1,252,000
In British mills	160,000	110,000
In continental mills	250,000	175,000
In mills in Japan and other countries	1,500,000	250,000
In public storage in America	2,212,000	2,180,000
In British ports	697,000	503,000
In continental ports	324,000	292,000
At sea in Britain	313,000	254,000
At sea to Continent	180,000	194,000
In ports and elsewhere in America	775,000	775,000
Elsewhere	1,688,000	....

[1] It is our contention that this surplus, both for the world and for America, is a surplus which has been accumulated from the remnants of crops for years and that it contains a tremendous amount of unspinnable cotton.

NOTE.—Later figures make some changes.

World's approximate production, consumption and stocks of all kinds, and American cotton, 1914 to 1919.

[Production and consumption in bales of 500 pounds net weight, amounts in thousands of bales.]

All kinds.	1919	1918	1917	1916	1915	1914
Production	....	17,769	17,410	18,095	17,609	[1] 23,866
Consumption	15,970	17,701	20,180	21,011	19,761	....
Stocks July 31	9,402	7,656	7,887	9,789	13,180	9,140
American—						
Production	....	11,520	10,813	10,956	10,709	15,438
Consumption	9,682	10,510	12,165	12,914	12,488	(1)
Stocks July 31	5,985	4,147	3,844	5,053	7,258	4,303

[1] We find it impossible to secure consumption both for "All kinds" and "American." However, the stocks shown are carried into the balance which composes the so-called surplus and we are unable to reconcile these stocks and contend that there is a large overestimate in same.

World's cotton mill spindle comparisons, 1910 to 1919.

[In thousands.]

Countries.	1919	1917	1915	1910
Great Britain	59,183	60,973	59,905	57,732
France [1]	9,300	[2] 7,400	[2] 7,400	6,731
Holland and Belgium	2,382	2,382	2,382	1,690
Germany	8,263	[2] 10,163	[2] 10,163	10,163
Scandinavia [3]	745	741	632	614
Russia (including Poland and Finland)	9,576	9,577	9,225	9,601
Austria-Hungary [4]	[2] 4,941	[2] 4,941	[2] 4,941	4,557
Switzerland	1,506	1,454	1,385	1,501
Italy	4,600	4,600	4,600	4,200
Spain and Portugal	2,750	2,678	2,528	2,235
United States	34,649	33,535	32,401	28,855
Canada	1,368	1,368	1,406	855
Central and South America	907	896	880	742
Brazil	1,500	1,520	1,520	765
India	6,654	6,840	6,779	6,196
Japan	3,117	3,182	2,657	1,897
Others	2,350	2,060	1,933	1,274
Total	153,791	154,310	150,737	139,608

[1] Including Alsace, 1,900 deducted from figures for Germany.
[2] Prewar figures.
[3] Denmark, Norway, and Sweden.
[4] Including 3,500 in Czechoslovakia.

FRANCE.

According to recent special Paris correspondence of "The Journal of Commerce and Commercial Bulletin," France used 7½ per cent of the world's production of raw cotton in 1913, the last normal year before the war; Japan used practically the same amount; Russia took 11 per cent; Germany, 13 per cent; England, 20 per cent; and the United States used up 34 per cent, with the remaining 7 per cent scattered among different nations using raw cotton in less proportion.

The world's manufacture of cotton textiles, on the other hand, was distributed as follows, in the preceding normal year 1912: Continent of Europe, exclusive of France, 31 per cent; United States, 27 per cent; England, 22 per cent; British India, 9 per cent; France, 6 per cent; Japan, 2 per cent; China and others, 3 per cent. The world's looms were distributed for all this manufacture as follows: England, 725,000; United States, 536,000; Germany, 230,000; France, 140,000, with this peculiarity, that France used 110,000 machine looms and 30,000 hand looms.

In terms of import and export, France, after reconstruction, should have 9,425,000 spindles, 166,000 looms, and 290 machines for cotton prints. To keep these working, she will need each year 338,000 tons of raw cotton and reconstruction will be long, very long, over before her colonies can supply any considerable portion of this amount. She will produce 205,000 tons of cotton threads and yarns, of which she will be able to spare 16,000 tons to sell abroad, and 272,600 tons of textiles, of which 100,000 tons will be available for exportation. (The Economic World. Jan. 31, 1920.)

Dry goods are scarce at home and abroad with an imperative demand everywhere. Moreover, they are selling at prices so far above the price of the raw material that the profits of the mills the world over, it is generally agreed, are something extraordinary. Lancashire is making the biggest profits, it is said, in its history. It has sold for months ahead to the Far East. In India, Japan, and in neutral countries the continent textile industries are remarkably prosperous. In other words, as in so many other branches of business consumption crowds production hard or over-passes it. Even in France, Belgium, and Poland, it is said that the progress of restoration in the textile districts is so rapid that they are feeling the benefits of the world revival of trade. (The Chronicle, Jan. 10, 1920.)

ITALY.

The war has changed the character of the demand for cotton in Italy. Inferior goods are no longer in request. The higher grade fabrics are demanded, not only by the export trade, but also for domestic consumption. One consequence of this is the falling off of the demand of the Italian spinners for the lower grade raw cotton produced in India. Difficulties are experinced in obtaining American raw cotton of a high grade. It is authoritatively stated in local cotton circles that cotton goods from Italy could undersell the domestic product to-day in the United States. This is largely because of exchange rates.

Another interesting phenomenon in the cotton trade is the dispatching of American raw cotton to Austria and Czechoslovakia by Italian spinners to be reimported into Italy in the form of yarn. It is pointed out that, with lower labor costs and a favoring exchange, raw cotton can be converted into yarn in Austria and Czechoslovakia at a cost of about 1.50 lire per kilo, whereas the cost in Italy ranges from 2.50 to 3 lire.

Notwithstanding the present high prices of cotton, the spinning and weaving industries of Italy are in a most flourishing condition, most of them running at full capacity. (The Economic World, Feb. 7, 1920.)

CHINA.

At least 800,000 new spindles have been ordered from British and American firms. In this connection it is interesting to note the growth of the American machinery trade in China. American firms now sell China complete mills, together with American mechanical skill to erect them and keep them going. In some cases they refuse orders unless given the right to supervise important details in installation, arrangement, and other engineering tasks. These firms keep their own staffs in China to erect the mills and keep them running efficiently. One mill so erected is in the Sung Sing Cotton Mill of Shanghai, which is a model in every way. This new method is a great contrast to those of a few years ago whereby the Chinese frequently bought different parts of their plants from different companies and upon arrival found they could not be assembled properly. (The Economic World, Jan. 10, 1920.)

POLAND.

A number of more important cotton mills in Lodz, Poland, are reported to be again in operation, and six of the leading cotton manufacturers have formed a trust in order to derive the full benefit from the sum allocated by the Government for the reestablishment of Polish industries. It is reported, says the New York Evening Post, that 5,000 tons of raw cotton have been received by the Polish Government and distributed to the mills for manufacture into goods, which are then to be sold to the population through the Government agencies, the manufacturers being paid a small profit. (Commerce and Finance, Jan. 7, 1920.)

CZECHOSLOVAKIA.

Czechoslovakia has 85 cotton spinning mills with 3,580,000 spindles and 600 weaving mills with 135,000 looms. About 700,000 bales of cotton would be required annually to maintain operation at full capacity, according to Pearsall's. Under capacity production it would be possible to export three-fourths of the entire output. Under present conditions about two-thirds of the output can be exported. (Commerce and Finance, Feb. 11, 1920.)

The result of this work will prove an amazement to the manufacturer. The world is facing a cotton famine. People can not live in air castles, nor can the manufacturers make cotton goods from an imaginary surplus nor from unspinnable cotton. The law of equal opportunity is knocking at the door of the South. For 60 years we have trod the wine press. Under the organization of the American Cotton Association the door will be opened; the South will come into its own, and as a result the South will be the main contributing factor in the upbuilding of a greater nation.

At this convention it was unanimously decided to try and have the War Finance Corporation reinstated, it being realized that it was vitally necessary to open up markets for the crops which were planted in 1920 under the assurances that the world would need a 15,000,000-bale crop; and it was also decided to use every effort possible to induce a reversal of the policy of artificial deflation, which was then rumored would be made effective.

I call your attention to two letters, attached hereto, written to Gov. Harding, and his reply thereto, after the conference in September:

SEPTEMBER 22, 1920.

Gov. W. P. G. HARDING,
Federal Reserve Board, Washington, D. C.

MY DEAR GOV. HARDING: We were very much in hopes that, as a result ot the conference which we held with the Federal Reserve Board, there would come a clearer understanding to all lines of the cotton industry, including both the cotton producer and the manufacturer. The manufacturers, regardless of the fact that they have shown record-breaking earnings for a long time past, have practically been entirely out of the cotton market for the last three to four months.

Since our conference in Washington we have talked with a number of the leading manufacturers in an effort to induce them to reenter the market. All of our efforts have been unavailing. The manufacturers insist that they will not buy raw cotton, nor will they manufacture the finished product except in the most limited degree possible; that they are convinced that a policy of drastic artificial deflation has been determined upon; that credits are restricted and that it would be unwise and unbusinesslike to pursue any other course; that if they bought the cotton it would simply result in entailing enormous losses on them; and that if they manufacture the finished product the same result would be in evidence.

Our understanding of the policy of the Federal Reserve Board, as announced in the conference, does not justify this action on the part of the manufacturers. Still, until they can be convinced otherwise, I feel sure they will continue to pursue their present course. We have produced five consecutive short cotton crops and are facing the sixth short crop. If the law of supply and demand were permitted to function to-day, the matter of supplies of raw cotton would be of serious concern to the world and there would be active competition for raw cotton at far higher prices. American and English manufacturers, due to conditions in central Europe, have been able to buy their raw cotton at a price, and to sell their manufactured product at a price that has brought them fabulous earnings for a long period. They do not deny this but insist that this

does not justify them in adopting a course that they feel would be unbusinesslike and would lay them liable to heavy losses on the raw cotton and on the finished fabric.

As a result of investigations by American consults in foreign countries, which investigations were made upon a joint resolution which we succeeded in having passed through the Senate, and also as a result of investigations into European conditions, made by some of the best experts in the country, we realize that as soon as we can arrange to sell cotton into central Europe present conditions will be entirely changed. We find that central Europe is in need of a far greater amount of raw cotton than is generally believed. However, regardless of these conditions, the War Finance Corporation was abolished and this removed the only means we had for perfecting sales into central Europe.

We are pushing the formation of the export corporation, under the plans recommended by you, in every way possible. This, however, and I know that you will agree with me, is a monumental job and will require much time. In the meantime the South is faced with a very peculiar condition. The American mills are practically out of the market, even though the price is far below the cost of production, and the English mills have followed suit. Both seem to be acting jointly. The only possibility of selling cotton is in a very limited way to the gambler and the speculator.

All efforts on our part to induce the mills to buy under existing conditions, we realize, will be unavailing, having absolutely failed in our efforts to induce them to reenter the markets upon our explanation of our understanding of the policy of the Federal Reserve Board. As stated above, the mills insist that a drastic artificial deflation policy is on; that credits are restricted; that it has been predetermined to force all commodities much lower, and that they will not be caught with either the raw material or the manufactured goods on hand. If some course could be pursued, some statement issued or a conference held with the manufacturers, I am convinced there would be a better understanding. If there ever was a time when people needed to get busy, now is the time, and as long as the mills continue to pursue their present course and business men continue to adopt their present policy, it but adds to the unrest.

At our conference in Washington were leading representatives of the agricultural and commercial life of the South from every cotton growing state. Nothing would afford me more happiness and joy than to be able to contribute in some small degree to changing conditions in the South from what they are into what they ought to be. However, nothing would cause me more mortification or sorrow than to think that people whom I admire would feel that I could take part, in the remotest degree, in any movement that would place the South in a position of special pleading or begging. I would feel that I was an ingrate and had forgotten the efforts and sacrifices that the men of the South have contributed toward the forming of this Nation.

There seems to have been a systematic system for sending out false propaganda concerning our conference in Washington. The angle of your address carried by many of the great dailies was extremely unfortunate, entirely unfair to the Federal Reserve Board and to the South, the headlines of many of these statements indicating that the South had plead for special consideration. Many of the papers seemed to have either purposely or by mistake failed entirely to catch the correct angle of your address, laying down the policy of the Federal Reserve Board. I felt convinced, after hearing you, that the publication of your address would have a marked stimulating effect upon business, nation-wide.

In addition to the newspaper representatives in the room, I was informed afterwards that a publicity representative of the Republican presidential candidate was present, and if this was the case it probably accounts for many of the misleading statements sent out.

I can never express in words my admiration of and deep appreciation for the great service that you have rendered to the entire Nation and the great kindness and service that you have extended to us. It places the entire South under deep obligations to you. I can not help but feel a keen disappointment over existing conditions, for it is my firm conviction that regardless of all of the service you have rendered during past years, regardless of the efforts which have been put forth by myself and others, regardless of the period of unthinkable prosperity through which the mills have passed, and regardless of the fact that if the law of supply and demand were functioning to-day the cotton producer would in like manner be facing a period of prosperity, unless some action is taken to clarify existing conditions, the policy adopted by the mills and every business line generally that touches cotton will practically destroy all of our efforts to bring to the agricultural and commercial life of the South the prosperity which is justly theirs. They are facing a condition with which they are absolutely unable to cope and which is absolutely unjustifiable and, regardless of the needs of the world for increased agricultural products, unless these conditions are improved the South, as a case of necessity, will show an alarming decreased production in all lines of agriculture next season.

If you can think of any special course we might pursue at this time that will assist in meeting the vexed problem now confronting us, I wish to assure you that I will nsider it a great favor if you will kindly let me have the benefit of your advice and lgment.

As stated above, after hearing the policy of the Federal Reserve Board as announced you, I felt satisfied that it would result in changing the views of the mills and all es of the industry, and that I have been mistaken in this is a great disappointment, d I still hope that some statement can be issued or some action taken that will result convincing the mills and other lines of industry that it is time to get busy and that policy of the Federal Reserve Board justifies such action.

Assuring you of my highest personal regards, I beg to remain,

Sincerely,

PRESIDENT AMERICAN COTTON ASSOCIATION.

AMERICAN COTTON ASSOCIATION,
September 23, 1920.

v. W. P. G. HARDING,
Federal Reserve Board, Washington, D. C.

MY DEAR GOV. HARDING: Following my letter to you of yesterday, some of my ll friends called me up to-day and directed my attention to the Associated Press spatch appearing in to-day's papers from Secretary Houston. They insist that under condition will they reenter the market for raw material, nor will they turn out the nufactured product, as long as this systematic effort to force prices down is continued; at they realize it would be absolutely foolish to either buy the raw material or turn t the manufactured product under existing conditions; that there is a regular sysmatic effort in force to beat prices down, and that the sensible thing to do is to stay t of the market until prices have reached such a level that these efforts will cease.

Friends have referred telegrams to me to-day from the exchanges, claiming that cretary Houston's statement has not only caused a break in the market, but has seated the confidence of the buyers and that they are convinced we are in for lower ices. The same thing has happened on several different occasions following statements issued by Secretary Houston, of the Treasury Department.

I am utterly at a loss to know how to cope with the situation. On Monday, Sepmber 20, we observed "cotton day" throughout the entire belt. A regular systeatic campaign had been arranged for the purpose of inducing the planters to sow rgely of small grains this fall with the view of planting largely of food and feed ops next spring, putting in a drastic reduction in the cotton acreage. At many of ese meetings the statement was made by farmers that it was absolutely useless for em to plant; that they could not sell until the lapse of a stated period in which ey would be enabled to harvest their crops, and that in the meantime prices would beat down much lower and they would be forced to shoulder additional losses.

I only mention this to show you the effect it is having upon the minds of the busiess men, from the producer on through to the manufacturer. The manufacturer is tirely out of the market and has been so for months past and yet the Secretary of e Treasury comes out with the statement that prices are too high; that it would be nspiracy to assist the producer to hold his cotton under these conditions.

I feel that I can write you freely and confidentially. It is bringing violent protests nd a bitter feeling. Why should the Treasury Department of the United States sue statements and take part in fixing prices on commodities? These statements an have no other effect than to beat down prices and still further demoralize the arket, the producer, and various lines of industry. It is thoroughly discouraging. f there was ever a time in the history of our Nation when it was the duty of our overnment to cooperate with and to assist the producer, to-day is the time. Not hat he is due any special favoritism, but that we will need an enormous increase in gricultural production and if this policy is continued it means that we will have an normous decreased production. The producer can not shoulder the loss he is now lainly facing and continue to produce. It will drive him into other lines of industry.

Assuring you of my highest personal regards, I beg to remain, with all good wishes,

Sincerely,

PRESIDENT AMERICAN COTTON ASSOCIATION.

FEDERAL RESERVE BOARD,
Washington, September 27, 1920.

DEAR MR. WANNAMAKER: I acknowledge receipt of your letters of September 2 and 23, inclosing newspaper clippings, among which is one purporting to give th views of the Secretary of the Treasury under the headline "No credit given to uphol prices." For your information I hand you herewith copy of a statement issued b the Treasury Department to-day denying the accuracy of certain statements in circu lation purporting to represent the Secretary's views on the present credit situation.

It is perhaps unfortunate in some respects that the spinners have taken the attitud you describe in your letters and that they are apparently not considering their ow requirements for raw material next year and perhaps the year after. However, I d not know of anything that can be done other than what was suggested at the con ference here on the 15th of the month.

Very truly, yours,

W. P. G. HARDING.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

Following the suggestion made by Gov. Harding that the Sout sell its good grade cotton for the purpose of easing the banking con ditions and enabling the producers to carry their low grades, I con centrated my efforts upon the sale of cotton as suggested; visite in person the manufacturers of Boston; took the matter up wit other manufacturers at home and abroad. As a result of this, I wa informed by the domestic manufacturers that under no conditio would they make purchases of cotton except based upon a strictl hand-to-mouth basis as long as the Federal Reserve Board continue its policy of drastic deflation, as it would mean the certainty of losse to themselves as this policy meant the certainty of lower prices; th confidence was being destroyed; that everybody wanted to sell an nobody wanted to buy. I informed Gov. Harding that it was im possible to sell to manufacturers and gave their reasons.

I urged Gov. Harding to attend the Montgomery conference whic we then called for September. Upon his suggestion I extended invi tations to every governor of the various regional reserve banks i the cotton-growing States.

At the Montgomery convention in September, 1920, at which wer representatives from a number of the cotton-consuming countrie abroad, including some of the very best recognized cotton expert in the world, representatives of the foreign manufacturers stated tha the world would have consumed the entire 15,000,000 bales o cotton had it not been for the removal of the War Finance Corpora tion and the policy of drastic artificial deflation. A leading econ omist and expert on cotton from England stated that the polic pursued in America had come as a great surprise to the manu facturers of England, and that, based upon the cost of production, he considered 40 cents basis middling cheap and reasonable for the American cotton crop, and said that it was only fair and just tha the American producer be paid these prices, especially as he was induced to produce the cotton with the assurance that there would be a pressing demand for it. In line with this, at the annual con ference of the New England manufacturers in 1920, the following statement was made by Mr. Arthur Richmond Marsh, editor of the Economic World:

> The first impression produced in Great Britain and most European countries b this course of events in the United States was one of profound astonishment. At th outset British and European comment upon the reports of what was happening in thi country was largely to the effect that we were suffering from an attack of economi

steria. The conviction long remained general on the other side of the Atlantic at the war had left as a heritage a universal shortage of goods and that the making of this shortage would occupy productive industry for a good many years to come. ere were, to be sure, serious difficulties of international credit and the like to contend th, but these difficulties should not prove insuperable, especially for a country come so rich and strong as the United States had become by reason of the war. e industrial countries of Europe, however, could not long resist the influence of e economic disturbance in the United States, any more than the United States d been able to remain unaffected by the panic in Japan; indeed, they were far less le to do so because the financial and industrial situation in which they had been t by the war was immeasurably less strong than that of the United States.

Hence, before the past autumn was far advanced, all the British and European instries producing for ultimate consumption were showing unmistakable signs of tress; the prices of their products were beginning to decline; they were getting arcely any new business; they were being forced to curtail their operations; and, at was more disturbing still, they were finding that a large part of the forward sales goods upon which they had been counting were unsubstantial and a source of heavy s instead of a handsome profit. This was particularly the case with the textile lustry, and above all the cotton industry, which found itself precipitated from the ights of the most extravagant prosperity it had ever known to the depths of an ually unprecedented depression and distress.

One of England's leading thinkers and economists, just a few onths ago, made the following strong and forceful criticism of the esent method of world finance which was brought about by the auguration of drastic artificial deflation in this country by the deral Reserve Board:

What, then, are the common denominators which best account for the universality that disaster now impending over the new year? I have pointed out one, namely, e deflation of credits and currencies. It is enough to say that if this intentional d malevolent destruction of credit is followed to its logical conclusions, men's arts may well fail them everywhere for the days that are at hand.

In the annual report of the management of the bank of France, in ference to existing financial and commercial conditions the following atement is made, which plainly indicates the enlightened statesanship with which the management of this great bank met this orld crisis and tempered its strain and shock to its people:

We have welcomed, whether by means of rediscount or by direct discount, all paper ose creation responded to the legitimate needs of commerce and production by is liberal policy to which we have remained and always will remain faithful. We pect to support with all of our power the activities of widely varying business enterises which in France are needed to lessen the violence of the crisis.

Lord Leberhulme, one of the most successful and greatest manucturers and business men of the British Empire, declared in a recent terview, as reported in the English press and also in our newspapers, at—

The process of too rapid deflation is undoubtedly the cause of the present unemoyment and trade stagnation. The price of commodities rose to the extreme limit ring the war and their reduction was a prime necessity, but the fall has been too dden for adjustment. This deflation has been accomplished through the banks lling in loans which were used to finance stocks at high prices. An effect of the rced realization of these stocks has been to drive down prices of commodities below e cost of production.

Under these circumstances manufacturers are not likely to go on producing at a ss and have consequently been compelled to shut down their factories.

Abraham Lincoln, one of the greatest statesmen of this Republic, hile President of the United States issued the following statement:

If a Government contracted a debt with a certain amount of money in circulation nd then contracted the money volume before the debt was paid, it is the most heinous ime a Government could commit against the people.

Arthur Kitson, president of the British Banking Reform League, a leading manufacturer of Stamford, England, made the following statement in February, 1921:

As the present trade depression seems to be affecting all nations alike it would seem that there must be one single and distinct cause, and in my judgment that cause is none other than the suicidal policy which is being adopted by nearly all countries at the suggestion of the money lenders and their hirelings, the professional economists, viz, the deflation of currency and credit. I hold the deflationists entirely responsible for the present trade depression which is creating unemployment universally. Some of our bankers are making the assertion that America is not feeling the effects of this policy in the way that we are here, but, from the information I am receiving, I have come to the conclusion that you are having as bad a time as we are. Will the people never learn the lessons of history? For the past five years I have been warning our Government and the Allies generally of what would happen after the war and the dangers which were in front of us by reason of the threats of the money lenders to restore what they call the "good old gold standard"—one of the most stupendous frauds that the world has ever known.

One of the best authorities in America, Prof. J. Laurence Laughlin, of the University of Chicago, made the following statement concerning these conditions:

A crisis comes because credit has been unduly expanded in a period of prolonged prosperity; in an optimistic spirit men have entered into transactions beyond their actual means, as is shown when the test of actual payment is exacted, and in time of fright collateral as well as goods falls in price. In such a situation liquidation needs time if disaster is to be prevented. The greatest need is some means, whatever it may be, which will enable a bank to make loans to a client who can thereby be saved from failure and from hasty and ruinous liquidation.

I have a great number of confidential letters which will throw a great deal of information on these matters. I also have in my possession much confidential information, all of which will furnish unquestioned proof as to the correctness of my position in these matters. However, under no condition would I think of using these confidential letters, nor would I use the confidential information, which information was given to me in confidence, unless I was authorized by the authors of these letters, all of which he has carefully marked confidential, to use same, and unless the stipulation made when information furnished me was imparted to me that it was obtained as confidential, is released so that I can use same.

Now, Mr. Chairman, the next matter I want to take up is with reference to the letters received from the Secretary of the Treasury in March. These are the letters I referred to a while ago, and somebody asked me to read them. I will take that matter up next.

On the 4th day of March I received the following letter from the Secretary of the Treasury——

The CHAIRMAN. What year?

Mr. WANNAMAKER. 1920. Now, that was after we had planted our crops. I received the following letter from the Secretary of the Treasury [reading]:

MARCH 4, 1920.

DEAR MR. WANNAMAKER: I received your letter of February 24, which I have read with great interest. The Treasury is, as you know, definitely committed against the policy of extending further Government loans to Europe. I do not think it would be wise for the Government to subsidize our producers and to maintain or increase the high level of prices here by stimulating sales to European countries which find themselves unable or unwilling to make payment for their purchases. I do not think it would be good for this country and I do not think it would be good for Europe to enlarge her indebtedness to this Government. Europe can not continue to run into debt at the rate maintained during the war and during the first year of the post-armistice

period. The views of the Treasury on this general subject are set out in Secretary Glass's letter dated January 30 to the president of the United States Chamber of Commerce, and my public statement of February 12, copies of which are inclosed.

Yours, very truly,

D. F. HOUSTON.

J. S. WANNAMAKER, Esq.,
President American Cotton Association, St. Matthews, S. C.

This is on the 4th of March.

The CHAIRMAN. Is that in reply to a letter you had previously written to him?

Mr. WANNAMAKER. Yes, sir.

The CHAIRMAN. I suggest that all that correspondence go in the record.

Mr. WANNAMAKER. All right. Thank you.

I wrote him under date of March 10, 1920, as follows [reading]:

MARCH 10, 1920.

Hon. D. F. HOUSTON,
Secretary of the Treasury, Washington, D. C.

MY DEAR MR. HOUSTON: I have received your letter of March 4.

We feel convinced that you have misunderstood our letter of February 24. On September 8 of last year in a conference in the city of New Orleans, consisting of prominent representatives of cotton producers and the allied business interests from every county in the cotton-producing section of America, a resolution was unanimously passed requesting the President of the United States to issue a call for a conference representing the business interests of America to be held in Washington for the purpose of discussing and arranging voluntary credits for Europe, it being fully agreed that these credits must come from private sources and that it would be unwise for the Government to extend further credits to Europe. This request was based upon the idea that it would be far better to prevent a calamity than to treat it after it had befallen us.

Our request was acknowledged by the President's secretary and we were informed that action would be taken on same. In the meantime President Wilson's illness came on and also many other pressing matters delayed consideration of the request. We feel convinced that the resolution and the correspondence concerning this matter have not received your attention.

I agree with you fully that it would be unwise for the Government to subsidize our producers. No such action by the Government has been requested by the producers. I think you will agree with me that we need an enormous increase in production on account of the enormous consumption and destruction during the war and for the purpose of meeting the tremendous increase in demand.

You state also that you do not think it would be wise for the Government to "subsidize our producers and to maintain or increase the high level of prices here by stimulating sales to European countries which find themselves unable or unwilling to make payment for their purchases." We most assuredly have not asked or expected that the Government "increase the high level of prices." However, it seems to be the consensus of opinion of the leading economists and financiers that it is of the greatest importance to increase production and for the world to become intensely busy. To increase production it is absolutely necessary for the producer to receive a profitable price for his product based upon the cost of production, supply, and demand, and at least to some extent based upon the price for which the manufactured product is selling. The result of our investigation by personal representatives brings startlingly to light the fact that the European countries are in need of raw cotton; it shows further that raw cotton is not selling at a profitable price based upon the cost of production, and is in no wise selling at a fair price based upon supply and demand and the price of the manufactured product.

I wish to quote you the following figures taken from the Textile World Journal, showing the range of prices of three sizes of combed yarns, taken semiannually, from June, 1914, to December, 1919. The three sizes are No. 4, 2-ply; No. 60, 2-ply; and No. 80, 2-ply.

Price range of combed yarns, 1914–1919.

	1914		1915		1916		1917		1918		1919	
	June.	Dec.	June.	Dec.	June.	Dec.	June.	Dec.	June.	Dec.	June.	Dec.
2-40s	$0.43	$0.38	$0.40	$0.50	$0.58	$0.85	$0.85	$0.90	$1.00	$0.95	$1.20	$2.50
2-60s	.55	.50	.52	.65	.75	1.05	1.10	1.15	1.25	1.20	1.55	3.50
2-80s	.75	.70	.72	.85	1.00	1.25	1.40	1.45	1.55	1.50	2.00	4.75

I also wish to refer you to address made by Congressman Wilson, of Connecticut, in directing the Federal Trade Commission to investigate the alleged profiteering of cotton mills in the United States, which appears in a recent number of the Congressional Record. In this address the following was brought out:

"It will be observed that the increase in price of these yarns from June, 1914, to June, 1919 (referring to figures quoted above), is somewhat gradual, but that from June, 1919, to December, 1919, there is in every case a violent jump of more than 100 per cent in the short space of six months. In the same six months raw cotton advanced only about 15 per cent, and wages, the other principal item in the cost of production, not more than 15 per cent. A hosiery manufacturer showed a few days ago a bill for No. 70 1-ply combed yarns at $4 per pound. The profiteering in cotton yarns is not confined to any section of the country. It is being practiced by all textile mills and fostered by the American Spinning Association. A president of a bank made this statement the other day: 'A client of our bank, owner of a spinning mill, showed me a statement for the month of January, 1920, that he made $55,000 that month on a capitalization of $200,000.'

"The same banker reported a statement by a manufacturer made a week or so ago to the effect that a cotton mill that does not make back its investment in six months is poorly managed. He also said that prices of raw cotton are not a factor or even a consideration because the margin of profit is so great. It is not denied that the spinners profiteered and made big money during the war, but those profits within the last six months are simply enormous."

I also feel that the following editorial appearing recently in an Asheville, N. C., paper should be of interest to you and throw some additional light on the subject:

"A PROBLEM IN PROFITEERING.

"A subscriber presents to us the following problem in simple arithmetic: A half-ounce package of cotton-gauze dressing costs 20 cents. A 500-pound bale of cotton would make 1,600 packages, worth $3,200. Suppose cotton costs 50 cents a pound, or $250 a bale. Suppose it costs another $250 to manufacture it. There remains a profit of $2,700 to be accounted for between the field and the hospital. Who gets the $2,700? Even if the profit account is too large, even if it should be decreased by $1,000 for factors not mentioned in this statement, there would still be a profit of $1,700 on a bale of cotton after it leaves the farm where, of course, it does not bring 50 cents a pound. We have made one mistake in this matter. This is complex arithmetic. There are several X's representing several unknown quantities. But there is in it somewhere an X which represents the discontent that under proper conditions breaks loose as bolshevism. We are unable to work out this problem for our subscribers. We hope somebody can. If that is a reasonable profit everybody would like to know it. If somebody is wittingly or unwittingly making too much on cotton gauze he ought to be forced to make less."

I agree with you most fully that it would not be good for this country nor would it be good for Europe to enlarge her indebtedness to this Government. I feel sure you will agree with me that it is of outstanding importance that Europe decrease her indebtedness to this country. I also agree with you fully that Europe can not continue to run into debt at the rate maintained during the war and during the first year of the post-armistice period. These debts must be decreased. The only possibility of decreasing same is through production of some kind. Europe produces by manufacturing. To manufacture, Europe must have credits so as to secure raw material. It would be absolutely impossible to decrease our inflation in credits or currency without a corresponding increase in production. If we attempt to deflate credits and the currency without an increased production, history will repeat itself tenfold.

As the cotton producer is not enjoying a high level of prices, your reference to maintaining or increasing the high level of prices or subsidizing the producer, certainly can not apply to the cotton producer. The Census Bureau shows that there are 2,000,000 families in the South engaged in cotton production. The average is a fraction over five to the family. Last year on a crop of less than 12,000,000 bales this makes less than six bales to the family as an average production. Sixty-two per cent of the cotton farmers of America are tenant farmers. When you get right up close to the cotton producer, you will find that instead of being a "planter" he is just a farmer, and that he and his family live mostly on corn bread, hog, and hominy. It will be found that the entire family—father, mother, and all the children—get up at sunrise and generally work in the fields as long as they can see. At least a thousand homes without a single tree or column in front of them will be found, to one of the "romantic" kind. With a large percentage of the cotton producers it is merely a question of existence from one year to another. Everybody that knows anything about cotton knows that it is an all-year-around crop from January to December.

I wish to quote you from a hearing before a committee of the United States Senate held some few months ago in investigating the high cost of living. The investigating committee was composed of Senators L. Heisler Ball, of Delaware, chairman; Arthur Capper, Kansas; David Elkins, West Virginia; Morris Sheppard, Texas; and Nathaniel B. Dial, South Carolina.

"EXHIBIT BEFORE THE COMMITTEE SHOWING THE COST OF COTTON IN ARTICLES OF MERCHANDISE AND THE ARTICLES THEN BEING COMPARED.

"The following is the result:

	Cost of the cotton.	Cost of the article.
A piece of gingham	$0.25	$4.50
A piece of voile	.195	3.48
One handkerchief	.015	.25
Two pairs socks	.045	.80

"Mr. CALVIN. I want to talk for a little while about cotton, because we have got to wear clothes as well as eat, and I want to tell you something about cotton and cotton farming. Here are 6 yards of gingham, Mr. Chairman, that I bought this morning at one of the leading dry goods stores in this city. I paid 75 cents a yard for it. It weighs 15 ounces precisely. It cost me $4.50 in cash. The farmer got 25½ cents for the cotton in that $4.50 worth of gingham. The average price of cotton last year was 27 cents per pound. Sixteen ounces to the pound makes 1.7 cents per ounce. Multiply 15 ounces by 1.7 cents and you have 25½ cents, the amount received by Mr. Cotton Farmer. I am not going to tell you who got the difference between the 25½ cents and $4.50. Somebody got it.

"Senator CAPPER. How much a yard did you say you paid for it?

"Mr. CALVIN. Seventy-five cents. After I bought it, I looked around, and noticed the store was pretty full of folks. I asked if there was a sale on and was told that such was the case, and the clerk explained to me that I would not have gotten the gingham at that price only on account of the sale. Being just a mere man I was not supposed to know that. I do not know what I would have paid for it if there had not been a sale on.

"Senator CAPPER. All these goods are still going up?

"Mr. CALVIN. Yes, Senator; and every now and then somebody raised a lot of sand about the cotton farmer profiteering and getting rich. I want to tell you that the price of cotton to-day is cutting absolutely no figure in the price of cotton goods. It is not even considered. Here is a piece of what the ladies call voile, I believe. It costs me $3.48, or 58 cents a yard, 6 yards of it. It weighs exactly 11 ounces. The farmer got for the cotton in this 6 yards of goods 18.7 cents, the goods that I paid $3.48 for this very morning. I did not overlook the men when I was remembering the ladies, and I got some socks. I bought two pairs of cotton socks. They weigh 2½ ounces. I paid 40 cents a pair—80 cents for the two pairs. The farmer got 4½ cents for the cotton in these two pairs of socks. Remember I paid 80 cents for them.

"I have some handkerchiefs here, Senator. I saw them in a window on the way up and asked the price of them. They looked like good handkerchiefs, and I was told the price was 25 cents apiece. They weigh 4¼ ounces. In other words, they

weigh a little less than an ounce each. The farmer got less than 1½ cents for the cotton in each one of these handkerchiefs."

I have only referred to cotton in this as an illustration. The resolution passed, we feel, would be beneficial; would promote the best interests of our nation; would assist to increase production and help solve the chaotic conditions existing.

The annual convention of the American Cotton Association will be held at Montgomery, Ala., on April 13 to 16. At this convention will be representatives from practically every cotton producing county in the belt, including Arizona and California. Some nine months have lapsed since the resolution referred to was passed. I was very anxious to secure some definite information on this matter in time to lay it before our annual convention in April.

As stated above, I feel satisfied that you have not clearly understood our position in the matter. In no wise do we wish our Government to subsidize the producer, nor have we requested such action of our Government; nor did we request that action be taken to have Europe enlarge her indebtedness to our Government.

Assuring you of best wishes, I am,

Very sincerely, yours,

J. S. WANNAMAKER, *President.*

Mr. Chairman, the reply to that was dated March 13, 1920, which I have already introduced into the record.

Under date of March 22, 1920, I received the following letter signed by Norman H. Davis [reading]:

MARCH 22, 1920.

MY DEAR SIR: Your letter of the 17th ultimo, addressed to the Secretary to the President, has been referred to this department. The matters which you discuss have received the careful consideration of this Government. As you are doubtless aware, numerous conferences and conventions have been called, and large credits have been opened to Europe not only by the Treasury of the United States but also by our financial institutions. All the evidence indicates that the extraordinarily large volume of loans and discounts now held by our banks contains so large an amount of paper created for the purpose of financing sales to Europe as to raise a question whether it is not greater than is consistent with conservative banking. There has been no lack of inducement to producers on the score of prices. Commodity prices have been at extraordinary heights and, as you know, form the basis of widespread complaint about the cost of living which has reacted in the demands for increased wages, which in turn react again upon prices.

I inclose a copy of a statement issued by the Secretary of the Treasury on January 24 and also a copy of his letter of January 28 to Mr. Homer L. Ferguson, president of the Chamber of Commerce of the United States. These indicate the considered position of the Treasury.

Very truly, yours,

NORMAN H. DAVIS.

J. S. WANNAMAKER, Esq.,
President American Cotton Association, St. Matthews, S. C.

In that same file, Mr. Chairman, is a letter written to the Secretary of the Treasury by myself, dated September 23, 1920, as follows [reading]:

SEPTEMBER 23, 1920.

Hon. D. F. HOUSTON,
Secretary of the Treasury, Washington, D. C.

DEAR SIR: Please note attached Associated Press dispatch, which appeared in the Columbia State to-day. These statements have been appearing from time to time. Are these statements issued by you or by your authority? Is it your intention to force down prices of agricultural products? If such is the case, the statements are having the desired effect.

The manufacturers who have just passed through a period of almost unthinkable prosperity, have withdrawn entirely from the purchase of raw cotton, having been out of the market for some four months. They insist that they will not reenter the market for raw cotton, nor will they turn out the manufactured product as long as the present policy is continued.

Were the law of supply and demand permitted to function to-day, there would be active competition for raw cotton at far higher prices and the matter of supplies of raw cotton would be of serious concern to the world. We have just passed through a

period in which there has been produced five consecutive short cotton crops. In the last five years we have consumed in excess of the cotton produced, and we are plainly facing the sixth consecutive short cotton crop and an entirely inadequate supply were normal conditions existing.

Central Europe, due to inability to arrange credits, has been shut off from supplies of American raw cotton, and due to this condition the English and American mills, being practically without competition, have been able to buy the raw cotton at such a price as to bring to them unthinkable profits. None of these facts are denied. However, the manufacturers insist that they would not be justified, under existing conditions, in reentering the market for raw cotton or in turning out the manufactured product.

They refer to the statement issued by you immediately following our conference in Washington and insist that this statement plainly indicates that it is your determination to force prices still lower, and that as a matter of self-preservation there is no course open to them except the one they are now pursuing. Your statement appearing in the press to-day seems to plainly indicate that the position of the manufacturers is correct.

The growing cotton crop is the most costly ever produced, and, as stated above, it is the sixth consecutive short crop. We were assured at the world cotton conference, where there were representatives from every cotton-consuming nation in the world, that there would be a pressing demand for 15,000,000 bales of American cotton this year. Every known effort was used to induce us to increase cotton acreage. However, we absolutely refused to increase the cotton acreage, and our production, according to Government predictions, will be several million bales less than the amount they stated there would be a pressing demand for. There is no market for the sale of cotton to-day except to the gamblers and speculators, and were the crop to be sold at existing prices it would bring to the South the loss of $1,133,000,000, conservatively estimated.

Prior to the convention of the world cotton conference there was held in New Orleans in October, 1919, a convention of the American Cotton Association, which convention was attended by around 3,000 farmers, merchants, bankers, business and professional men from every part of the cotton-producing section of America. At this convention the matter of any attempt to deflate, either in credits or currency, was fully discussed, it being pointed out in this discussion that it would be a matter of extreme danger to the producer to conduct his farming operations if any specific attempt was made to deflate between the time of planting and the time of harvesting, it being, of course, realized that if he bought the commodities necessary to produce the crop he would have to resell them through the marketing of his crop, and that in the meantime if policies had been adopted that would deflate these commodities it would place him in a position where he would be forced to shoulder enormous losses.

At this conference a resolution was passed urging that the representatives of the various agricultural sections and of the various commercial lines of industry be invited to Washington for a conference. This resolution was forwarded to the President. In the meantime the matter was again discussed at the world cotton conference. The producer, through the American Cotton Association, used every known effort to secure all information possible bearing on deflation. He found that a credit board, in line with the one he had urged for America, was in operation in England, and had worked very satisfactorily. He was assured by outstanding representatives of the various commercial interests that most assuredly there would be no definite steps taken bearing upon deflation until there was an enormous increased production. The statements which you are issuing would indicate that the conclusions reached were incorrect, and that a policy of deflation is being put into effect before the producer can harvest and market the crop which he has planted. As a matter of simple justice, we feel that a specific statement should be issued concerning your policy along this line. Otherwise, the producer will be entirely in the dark as to the proper course to pursue in the planting of his fall crops.

The American Cotton Association covers every cotton producing section of America, and embraces in its membership the farmer, the merchant, the banker, the business and the professional men. On Monday, September 20, "cotton day" was observed throughout the entire belt, and meetings were held at the various county seats and at the various township centers for the purpose of inducing the farmers to plant largely of small grains this fall and food and feed crops next spring, planting cotton only as a surplus crop, adopting a plan of safe, sound farming. At many of these meetings the objection was made by the farmers that it was useless for them to plant these fall crops, that they would be unable to sell until after a lapse of the necessary time in which the crops could grow and be harvested, and that in the

meantime the prices of agricultural products are being forced still lower, that by planting these fall crops they would be forced to shoulder an additional loss. This impression is spreading. We need an enormous increase in agricultural production. Will it be safe for the producer to plant under existing conditions?

Through personal representatives in central Europe we have learned that there is a pressing demand for an enormous amount of raw cotton in these countries, especially of the lower grades. We are now pushing the organization of the export corporation, accepting cotton in payment of stock, for the specific purpose of trading in Central Europe, where it is necessary to extend credits. This is the only possible way in which we can market our raw cotton in Central Europe. When this task is completed it will mean that the producer, in addition to receiving a fair price for his cotton sold into Central Europe, will receive the benefit of a stimulating effect upon the market in America.

If the War Finance Corporation were permitted to resume operation, this would furnish the means whereby raw cotton could be sold into central Europe on credits arranged through the War Finance Corporation. It would bring tremendous benefits to the entire agricultural and commercial interests of the Nation. It would furnish central Europe with raw material, and thus enable them to go to work.

It is our understanding that the reestablishment of the War Finance Corporation was left entirely in your hands, and while we were in Washington we made an especial effort to hold a conference with you for the purpose of laying this matter before you, and as we were unable to locate you we appointed a special committee composed of Senators Dial, of South Carolina, Simmons, of North Carolina, and Robertson, of Arkansas, with instructions to take this matter up with you at the earliest possible date.

We will appreciate it if you will advise us definitely your position as to the reestablishment of the War Finance Corporation; also your judgment as to the formation of the export corporation mentioned above.

We also ask that you specifically state your position concerning agricultural products.

Do you expect to continue to issue statements in line with the one attached hereto?

Are these statements being issued for the purpose of forcing down prices of agricultural products?

It is very important that we receive this information so as to act intelligently in the planting of our crops.

A common-sense business policy would plainly indicate the wisdom of an enormous reduction in our agricultural production in all lines if it is your policy to force deflation or to force lower prices of agricultural products, as the time between the planting and the harvesting would mean the absolute certainty of such a change in the prices of all commodities necessary in the production of the crop that it would entail the certainty of enormous losses upon the producer.

I am especially desirous of promoting the best interests of the country at large, and I am convinced that a clear statement from you as to the policies of the Treasury Department along this line should be issued.

Yours, respectfully,

J. S. WANNAMAKER, *President.*

And to that I received the following reply from the Secretary of the Treasury, dated September 27, 1920 [reading]:

THE SECRETARY OF THE TREASURY,
Washington, September 27, 1920.

DEAR SIR: I have your letter of September 23. Gov. Harding gave me a full account of your conference with him. I am in entire sympathy with the policy of the Federal Reserve Board, and nothing that I have said can be interpreted to mean anything else.

I am inclosing herewith a statement which I gave out yesterday. This statement bears upon requests that have been made to me as Secretary of the Treasury that the Treasury deposit money in certain sections of the country which the banks might lend to applicants for loans. As a matter of fact, the Treasury itself is borrowing money in order to pay its current obligations. It has to do this in the intervals between tax payments. The tax receipts for the entire year will be sufficient to meet the ordinary expense of the Government and to pay off a part of the floating indebtedness, but a very considerable part of the taxes, as you know, come in in quarterly installments and we have to borrow on short-time certificates to assist in meeting the obligations in the meantime. It would be impossible for the Treasury to borrow money to lend to any group of citizens. You recognize in any event that it could not discriminate.

The activities of the War Finance Corporation in making loans to facilitate exports were discontinued after full consideration of the matter and after conference with the President. The corporation was a war emergency corporation. The power given it to facilitate exports was conferred at a time when it was feared that exports would not go forward. As a matter of fact, exports have gone forward in increasing volume. In 1918 the total exports were $6,000,000,000; in 1919, $7,900,000,000; and on the basis of the first seven months of this year they are going forward this year at the rate of over $8,000,000,000. Obviously the business machinery of the country is financing exports, and the emergency contemplated by the act does not exist, so far as financing the volume of exports is concerned. Of course, you understand that the War Finance Corporation had no money except what it got from the Treasury. In order for the Treasury to finance exports it would be necessary for the Treasury to borrow money for this purpose at a rate which would exceed 6 per cent. Obviously the Treasury would not be warranted in borrowing money to facilitate exports when they are going forward in unprecedented volume.

Clearly the Treasury should not be in the banking business. The Federal reserve banks of the country and the Federal reserve system functioned during the war in orderly fashion and are now engaged in extending accommodations in large volume to meet current demands. The statement which I inclose herewith will remind you of the extent to which the banks of the country are aiding industry and agriculture.

Very truly, yours,

D. F. HOUSTON.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

I have also attached to that file, Mr. Chairman, a statement given out to the newspapers on September 27, 1920, as follows [reading]:

TREASURY DEPARTMENT,
September 27, 1920.

Certain statements in circulation purporting to represent the views of the Secretary of the Treasury on a phase of the credit situation are either inaccurate or have been misinterpreted. What the Secretary said is this:

"I am in favor of every legitimate effort to promote the orderly marketing of all commodities, but the Government can not be a party to an undertaking to hold commodities off the market to enable the owners artificially for speculative purposes to maintain war prices or higher than war prices. As a matter of fact, the banks of the country during the last 12 months have been extending large credits to meet the demands from industry and agriculture.

"Since August, 1919, the loans and investments of about 800 reporting membe banks increased over two and a half billions of dollars. As these reporting banks represent about 40 per cent of the resources of all the banks, it is estimated that the total increase in loans and investments since August, 1919, has been over five and one-half billions of dollars. Even from January 23, 1920, when the increase in discount rates went into effect, to August 27, 1920, the loans of about 800 reporting member banks, exclusive of loans secured by Government obligations and other stocks and bonds, increased about one and a quarter billions of dollars. This would reflect a total increase of commercial loans in all banks, it is estimated, of perhaps $3.000,000,000. Since the crop-moving demands came on the bills discounted and purchased by the Federal reserve banks have increased at the rate of about fifty millions a week and the Federal reserve notes at the rate of from thirty to forty millions a week. The increase in the volume of Federal reserve notes from January 23, 1920, to August 27, 1920, was $360,000,000."

Also attached to that file is a letter written by me on October 7, 1920, to the Secretary of the Treasury, as follows [reading]:

OCTOBER 7, 1920.

Hon. D. F. HOUSTON,
Secretary of the Treasury, Washington.

DEAR SIR: I have this day written to President Wilson as per copy of letter attached hereto.

We are extremely anxious to hold a conference with you during our sessions in Washington for the purpose of discussing the conditions now confronting the agricultural interests of America.

The producers of America are largely forced to sell their products below the cost of production, and we are unable to market our products, subject to exportation to central Europe, where there is a pressing demand for all raw material.

The reestablishment of the War Finance Corporation would relieve the situation and we are especially desirous of being allowed the privilege of a conference for the purpose of urging the necessity of the reestablishment of same. The matter of deflation is of very serious concern to us. Nature requires a fixed period between seeding and harvesting, and if the present policy of deflation is to be continued it points to the absolute certainty of the producer being forced to shoulder enormous additional losses. Unless the producer can market his products based upon the law of supply and demand, he will be forced into other lines of industry, which will bring decreased production and eventually higher prices. For the purpose of marketing his products upon the law of supply and demand, it is absolutely necessary to extend the sale of same over a period of sufficient length to bring a legitimate demand for same, based upon the law of supply and demand, and at a price above the cost of production. The policy of marketing, especially all staple products, as outlined by Gov. W. P. G. Harding, of the Federal Reserve Board, is absolutely necessary for the protection of the producer and the general welfare of our Nation.

Statements issued by governmental officials concerning prices carry great influence. We do not ask or expect that the governmental officials issue statements urging higher prices for agricultural products; we can find no provision in the Constitution, or no statute or law, justifying the issuance of statements for the purpose of forcing down the price of agricultural products, and we wish to file a protect against this policy.

Please kindly advise at what hour on October 12 or 13 we can hold this conference with you, and we will ask that you arrange an hour so that it will not conflict with the time arranged by the President for the conference with the Cabinet.

We wish it distinctly understood that we are not asking for this conference with the expectation of or for the purpose of requesting any especial consideration or privilege. We are convinced that it is absolutely necessary to have increased production in all forms of agriculture. However, unless we can gain access to the market of the world for our products, unless we can sell same based upon the law of supply and demand, at a price above the cost of production, it will be suicidal to adopt any other course than restricted production, limiting same so as to meet only the markets open to us and enable the marketing of same at a price above the cost of production.

This conference is requested with the earnest desire that as a result of same a better understanding will follow, conditions which are now throttling agriculture will be removed, and we will be able to play our full part in promoting an intense world-wide commercial activity, thus assisting our Nation as a leader among the nations of the world in promoting peace and prosperity.

We are writing you separately. In all probability a joint conference with the President and Cabinet will be more practical, but we will leave this entirely with you.

Assuring you that your prompt attention to this matter will be highly appreciated, I beg to remain,

Respectfully,

J. S. WANNAMAKER,
President American Cotton Association.

As a result of this correspondence with Secretary Houston, I immediately reached the conclusion that unless we managed in some way to get exports out of America we would be throttled. He refused to take any initiative to have the War Finance Corporation function. I got busy and consulted with a number of the business men of the association. I want to explain that there is no one connected with the association that has any motive except pure service. There is no compensation whatever attached to it. I called these men in consultation, and we decided that it was absolutely necessary to try to effect a sale on the foreign market, to foreign cotton users. We had all this cotton, the low-grade cotton, and all, and everybody was anxious to sell cotton. The question was, how much will you allot to me? I have so much; do not allot it all to Texas, but allot some to me. It was the largest crop we had had since 1914. We made the announcement that we would allot it as it came in. Following that we got a notice that the War Finance Corporation was disbanded.

Secretary Houston would not allow it to function. We had the crop in the ground. We had incurred all the expense for it, and we had shipped no crop of cotton out since 1914. The people in Europe wanted our low-grade cotton, but we could not finance it. We were entirely knocked out. As a result of this removal of the War Finance Corporation, a lack of functioning on the part of the War Finance Corporation, we called a second meeting in Montgomery. This meeting was largely attended; 14 States were represented.

Immediately following the conferences in Washington with the Federal Reserve Board and Secretary of the Treasury we launched a nation-wide campaign for the reestablishment of the War Finance Corporation, calling to our assistance and cooperation agricultural associations, chambers of commerce, business organizations, and individuals throughout the Nation. We conducted this campaign by correspondence and through special committees. As a result, the act for the reestablishment of the War Finance Corporation finally passed through the House and Senate, its passage being bitterly opposed by Secretary Houston. We are also informed that its passage was opposed by Gov. Harding, of the Federal Reserve Board. Learning that influence was being brought to bear to induce the President to veto this bill, and recognizing the vital necessity for passage of same, we redoubled our efforts to induce the President to approve the bill, soliciting for this purpose the assistance of every possible influence we felt could be brought to bear on the President. However, the bill was vetoed by the President regardless of every effort we put forth. We then redoubled our efforts to have the legislation passed by the House and Senate over the veto of the President, and the bill was finally enacted into law reestablishing the War Finance Corporation. Regardless of its passage, however, through the influence of Secretary Houston and others the War Finance Corporation failed to actively function for months afterwards. The removal of the War Finance Corporation, thus shutting off the instrumentality and the means whereby exports could be made cost the agricultural producers and business interests of this country a fabulous sum. It will be impossible to file letters written concerning the reestablishment of the War Finance Corporation on account of the tremendous volume of same. In the campaign for this reestablishment hundreds of thousands of letters were written by us.

The CHAIRMAN. This was in September?

Mr. WANNAMAKER. No, sir; I will get to September in a minute. The matter came up as to how we could get our cotton out of the country. The manufacturers would not buy except in a very limited way from hand to mouth. There was practically only a limited domestic consumption and some in England. We decided to again do everything we possibly could to get the War Finance Corporation to functioning, because we believed if they understood the seriousness of the situation it would be allowed to function. I wrote to Gov. Harding about this situation. The letter is here. I told him we could not sell our low-grade cotton. Gov. Harding has introduced very voluminous correspondence here. I did not have the privilege of reading it until last night. I shall introduce the letter I wrote to him, which brought forth the letter in which he states that cotton

is at a maximum, and he says it got to 43 cents. Both those letters are here. He stated that cotton had got to the maximum; the highest price it had been. He did not state that it was the highest price that it was going to, though.

We could not get across the water with our cotton, where they wanted it. Regardless of the world shortage, we could not get it to them. I then decided that the best thing to do was to get in touch with the domestic manufacturers, as I have stated, for the purpose of carrying out his suggestion to sell our low-grade cotton. I went to Boston, as I have already stated, and met with the manufacturers up there in July.

Now, a manufacturer is much more of a business man than a farmer, who is just a common clodhopper like myself. I met some of our friends up there, the manufacturers. They said, "Mr. Wannamaker, we would like to relieve you on your cotton situation down there, but we are buying in a limited way. Deflation is on. If we buy to-day, it will go lower to-morrow. Cancellations are beginning to come in. The sign has been hung out. Everybody knows it will not get any better until they change this policy of increasing the rediscount rates, contracting the currency. Until they do that, there will be a contraction of the currency, and credits are bound to be lower."

I left New England very despondent and took the matter up again with the manufacturers in the South, and made an appeal to them as southerners that they should help us out of this situation. The low-grade cotton was there since 1914. While cotton is quoted at 43 cents, we can not sell that kind of grades. If you could sell your entire lot, it would fetch about 25 cents, but you can not sell these lower grades at all. The manufacturers told me to tell the officials of the association—you can tell your friends for me—"We are not buying cotton as long as this deflation policy continues in force. We would be very foolish to do it, because if we bought to-day it will go lower to-morrow. It would be foolish."

I took it up with the individuals among the manufacturers and asked them to buy. I said to them, "Will you buy?" They said, "No, we will not buy, to be frank with you." I said, "Will you explain this to me: Cotton is now at a high price; are you going to stop running?" They said, "No; we have not stopped running at all. The American and English manufacturers are running and making fabulous profits; they have no competition in the market, but we have seen the handwriting on the wall about this artificial deflation." We could not get them to buy.

I wrote again to Gov. Harding. I will file the letter. I could not get the manufacturers to take the common grades off our hands.

Then we arranged to call a meeting in Montgomery—a much-discussed meeting. In Montgomery I invited Gov. Harding to attend the meeting. Gentlemen, I do not feel that I can quote confidential letters. I am not referring to letters, except such that I feel that I can use I asked Gov. Harding to come to the meeting. I told him I thought there would be 175 bankers there and that the conference would be very largely attended by representatives of agriculture and the various lines of industry from every section of the 14 cotton-growing States. I told him we were going to try to solve this economic problem. I asked him to attend the Montgomery

convention. He wrote back that he was very busy and could not attend. He suggested to me that I invite the different governors of the five Federal reserve banks interested. At his suggestion we sent a similar letter to all the governors. We sent them letters asking them to come to the convention. Prior to the Montgomery convention I asked him if he would not ask the governors to attend. He said that he could not do that. Judge Ramsay, one of the finest men in America, the governor of the Federal reserve bank at Dallas, attended the convention, and made a magnificent address. There were a great number of bankers and business men attended the meeting. There was great distress manifested there. We called a meeting of the bankers' association. The room would not hold more than 75, and the others could not get in. They discussed the situation, and Judge Ramsay was in the meeting. It was decided, as we thought, carrying out Gov. Harding's own suggestion, that it would be a good idea for a committee to meet with the Federal Reserve Board in Washington for the purpose of getting a better understanding on these propositions. As a result of that we wrote to Gov. Harding and asked him if it would be entirely satisfactory to arrange a meeting in Washington.

Let me refer one minute to the Montgomery convention. We had different committees there. The committee on price recommendation was in session three days. I have their written report. Some of the most conservative men in the South were on that committee. Mr. Bradford Knapp, who was formerly in the Department of Agriculture here, and men like that, were on the committee. They stayed in session, and studied the crop reports of cotton for the years 1919 and 1920. The question came up as to what means to take to avoid having a regular panic in cotton. Buyers were very short. Such men as Dr. Todd from England, who is recognized as the world's greatest economist, attended the convention and delivered an address.

In September, 1920, the cotton growers of the United States found themselves faced with the largest crop productions since 1914, with exports practically closed against their crops and with only a limited demand from domestic manufacturers and a rapidly sagging market and demand on the part of cotton merchants. Cotton could not be sold to the spinners except in a very limited way. The spinners frankly stated that they were adopting a "hand-to-mouth" policy as the policy of artificial deflation meant the absolute certainty of lower prices; that confidence was destroyed as a result of this policy; and that the vast amount of propaganda that was being issued through the press and by special circulars from high national officials in Washington had resulted in driving buyers from the market.

In addition to this, it was the impression of the cotton-consuming world, especially the speculators and gamblers, that not only the cotton producers, but the producers of all staple crops, would be forced to sell same, regardless of prices and demand, as the Federal Reserve Board would decline to permit the rediscounting of paper for this purpose.

In a desperate effort to gain some degree of protection, a conference was arranged in Washington between the Federal Reserve Board and representatives of the American Cotton Association. These dele-

gates met in Washington on the 14th of September, 1920, for this conference.

We came to Washington after making all arrangements and met at the Willard Hotel on the 14th of September, and we decided on five representatives to present our findings. We appointed a committee to draft recommendations that we would make to the Federal Reserve Board. And the committee was specially instructed not to make any request that was sectional. We made a written request. It was unanimously decided to present to the Federal Reserve Board a written report. I will read you that written report. It was decided that when this written request was presented that no one should open their mouths in the meeting with the Federal Reserve Board, except three men; it was decided that the request should be read by sections and be explained by Gov. Richard I. Manning, of South Carolina, and that Mr. Lyday and myself should explain it.

The CHAIRMAN. Let me ask you there: Prior to this there had been a convention at New Orleans?

Mr. WANNAMAKER. Yes; in 1919. That is what I referred to.

The CHAIRMAN. Had there not been one in 1920?

Mr. WANNAMAKER. No, sir; not in New Orleans, but in Montgomery, in April, 1920, we held a very largely attended conference.

Now, I will read this request to you which was prepared there and handed over to the Federal Reserve Board.

Representative FUNK. What is the date of that request?

Mr. WANNAMAKER. I think September 15, 1920. The request is September 15, 1920, as follows [reading]:

Statement, which was read, explained by section, and presented to the Federal Reserve Board by a special committee of the American Cotton Association, at Washington, D. C., September 15, 1920.

Whereas there being doubt and uncertainty among the member banks in the Richmond, Atlanta, Dallas, and St. Louis districts of the Federal reserve system, arising out of an apparent difference in the position of these four districts as reflected in their official bulletins released from time to time as to the attitude of the Federal reserve bank with regard to the movement of and financing of the cotton crop so as to provide for its gradual and orderly marketing; and

Whereas it is imperative that a definite understanding be had on these points to restore confidence and enable an intelligent and sound procedure on the part of the banks in these districts in handling the credit situation involved by reason of unprecedented conditions existing caused by: 1. The lateness of the present crop; 2. Lack of the demand from the domestic cotton merchants and manufacturers; 3. The heavy reduction in the foreign demand on account of the complicated foreign situation and the inability of the foreign countries to buy and pay for raw cotton: Therefore be it

Resolved, That it is the opinion of the delegation of the American Cotton Association that the situation will be materially relieved if the following suggestions are adopted, namely:

That such necessary renewals be granted on loans based on agricultural paper now held under rediscount from member banks in the districts mentioned, to enable a gradual and orderly marketing of the crop on which the credits are based, either by the renewal of the agricultural paper or the substitution therefor of commodity-secured paper where expedient; or by loans on cotton in warehouses with proper receipts, as provided for in section 13 of the Federal reserve act: Be it further

Resolved, That the board be assured that these suggestions are made not for the purpose of hoarding or providing credit for speculating in spot cotton, but for the sole purpose, as aforesaid, of providing for gradual and orderly marketing under the adverse conditions as they exist, and thereby providing a sure liquidation.

STATE OF SOUTH CAROLINA,
County of Calhoun.

Personally appeared before me Joseph M. McCabe, who, being duly sworn, makes oath that he recorded the conference between the American Cotton Association and the Federal Reserve Board at Washington, D. C., on September 15, 1920, and that the above written request is a true and correct copy, and covers the request made of the Federal Reserve Board at this conference; that the said request was read by Ex-Gov. R. I. Manning, of South Carolina, explained by sections, and delivered to W. P. G. Harding, governor of the Federal Reserve Board, by Mr. Manning during the session of the conference.

JOSEPH M. MCCABE.

Subscribed to and sworn before me this 19th day of August, 1921.

J. H. LORYEA,
Notary Public, South Carolina.

On September 15, 1920, in a joint session of the Federal Reserve Board with over 50 representatives of the 14 cotton-growing States, and also with a number of United States Senators and Congressmen, this written request was presented to the Federal Reserve Board. The request was presented by former Gov. Richard I. Manning, of South Carolina, read, explained by sections, and handed to Gov. W. P. G. Harding.

Now, gentlemen, following the reading of this report, which was explained by sections—we were in joint session—Gov. Manning delivered the report over to Gov. Harding, and he received it. Gov. Manning asked Gov. Harding, "How much time can we have, Governor?" He said, "All you want." This was said as soon as he had completed his reading by sections. We were not asking for any special consideration for cotton, but were simply asking that this be done for the purpose of restoring confidence, which was being destroyed. We were not hoarding our cotton, but this was only for the purpose of enabling us to get our crop harvested and get it to market.

Gov. Harding then delivered an address which extended something over an hour. He said it was 20 minutes. He had a printed address in front of him. In addition to that address he made some other remarks. In this committee were some 50 men from the South, bankers, merchants, and business men, together with some United States Senators and Congressmen. In his statement here he said that he promised them nothing, because he could not. In that meeting, at the conclusion of Gov. Harding's address, I got up and thanked him, because I thought he had granted to us every living thing we had asked him for. Appreciation of his granting our request was also expressed by other members of the delegation.

Gov. Harding was requested to permit the publication of the address which he delivered. Copies of same were furnished, with the explanation that this same address would be delivered by him in Cleveland, Ohio, within a few days thereafter. Not one single, solitary word was mentioned, directly or indirectly, concerning any request for any special amount for cotton or for the rediscounting of any special price per pound on cotton.

Gov. Harding's statement before this commission that a rediscount of 32 cents per pound was requested on cotton in this conference is entirely and absolutely incorrect, as is proven by the written records of the conference and confirmed by those who attended the conference.

We left the building and went to the White House to call on the President. When we came back from our call on the President, Gov. Manning and I went back to Gov. Harding, and Gov. Harding said to me that he understood I had issued a statement concerning the meeting. He said, "I wish you would not give out any statement." He had furnished me in the meantime a copy of the address he was to deliver at Cleveland, Ohio. We met at the Willard Hotel, and in that body at the Willard were 50 men representing, I think, some of the best men in the South. We were not divided on political lines. There were all kinds of men there. There were several United States Senators and several Congressmen in the meeting. We concluded that the best thing to do was to give a statement to a representative of the press, and I asked the representative of the press to kill the statement that I had given him before. He said I could kill it if I wanted to. Then we met at the New Willard Hotel and prepared a report and statement for the press.

This statement was prepared by Congressman A. F. Lever and Gov. Manning, Mr. Lyday and myself, and was very carefully prepared.

Mr. Chairman, I want to place in the record the telegrams exchanged between myself and Gov. Harding in relation to this matter, as follows (reading):

St. Matthews, S. C., *August 8, 1921.*

W. P. G. Harding,
Governor Federal Reserve Board,
Washington, D. C.

Press carries statement that you testified before agricultural commission that I made request Federal Reserve Board that they rediscount cotton paper basis 32 cents per pound middling when cotton was selling 28 cents pound basis middling New York. If you are misquoted please do me justice to have correction made. If correctly quoted please give me date and particulars concerning such request. However, convinced you are incorrectly quoted as no such request was ever made. In justice to sound banking and based upon common sense I could not be induced to request rediscounts in excess of 80 per cent market value, such loans to be secured by notes of farmers with warehouse certificates and cotton fully insured and to be always fully margined. Answer quick.

J. S. Wannamaker,
President American Cotton Association.

Washington, D. C., *August 8, 1921.*

J. S. Wannamaker,
St. Matthews, S. C.

My statement referred to resolutions passed at Montgomery conference September 2, 1920, with reference to market value of cotton at time these resolutions were presented to board meeting here on September 14. Think you will be satisfied when you see full report of proceedings that I did not misrepresent you. Am not responsible for newspaper accounts.

W. P. G. Harding.

St. Matthews, S. C., *August 9, 1921.*

W. P. G. Harding,
Governor Federal Reserve Board, Washington, D. C.:

Your telegram 8th. Complete stenographic report Washington conference proof positive you are in error in stating resolutions passed Montgomery conference September 2 were presented to board meeting by us. Request at September Federal reserve conference was read to full board, explained by section, and then presented to you personally in writing and most assuredly should be in your files. Stenographic report proves conclusively no request was made that loans be granted on cotton at 32 cents per pound basis middling. This request was that necessary renewals

be granted on loans based upon agricultural paper to enable gradual and orderly marketing of crops on which credits were based, either by renewal of agricultural paper or substitution therefor of commodity secured paper where expedient, or by rediscounting on cotton in warehouse with proper receipts as provided in section 13, Federal reserve act. Officials and members association throughout Cotton Belt strenuously protesting over injustice of statement and insist it has already done serious injury to association, officials of association, including myself, and unless immediately corrected injury will be far-reaching. They insist I telegraph urging correction be made immediately to investigation commission and released to press as outlined above, so as to counteract as far as possible previous incorrect statements. I therefore urge in strongest terms, both in justice to yourself, myself, and association, you immediately correct your statement concerning our request in conformity with above, written copy of which was delivered to you at time and most assuredly should be in your files. Convinced with this information, you will realize serious injustice done us and immediately grant request for correction.

J. S. WANNAMAKER.
President American Cotton Association.

WASHINGTON, D. C., *August 9, 1921.*

J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

Proceedings of conference September 15, 1920, were public and were not reported for board by stenographer. Can only refer to newspaper reports next morning. Unable to find in board's files any request such as referred to by your telegram. Would be pleased to have your recollections of what occurred at conference September 15, and will file same with agricultural commission, together with copy of press statement I issued immediately following conference. Have examined stenographic record of my statement before commission and find therein no statements which are not fully justified by your letters and telegrams and by report of Montgomery committee on price recommendation, particularly when considered in connection with your telegram August 24. I gave commission only part of our correspondence, but am perfectly willing to turn it all over to them and have it incorporated in record.

W. P. G. HARDING.

NOTE.—For further information I attach copy of my telegram of August 24, 1920, to which he refers, which has no bearing whatever on the question at issue.

J. S. W.

ST. MATTHEWS, S. C., *August 24, 1920.*

W. P. G. HARDING,
Governor Federal Reserve Board, Washington, D. C.

All buyers have withdrawn from cotton market. Manufacturers claim can not sell manufactured product. Combination beating down prices and flooding South with bear propaganda urging sell cotton and insisting Federal reserve will only extend credits for harvesting of crops, but will not permit warehousing of same and holding until there is legitimate demand from manufacturer above cost of production. This is most costly crop ever produced, and if South unable to secure finances enabling them to warehouse cotton but is forced to sell regardless of price then we are facing calamity which will bring serious conditions not only to producer but to every legitimate line of cotton industry, and this in face of acknowledged fact that world is in need of enormous increase in raw cotton production and that, based upon supply and demand, producer is entitled to price above cost of production. Every State in cotton belt holding convention. Beg you telegraph me prior to convention to-morrow, Wednesday, in Columbia, which convention will be attended by representatives of agricultural and commercial interests of various cotton-producing States, acceptances to invitations showing attendance of three to five thousand, that Federal reserve will extend necessary credits to enable producer to harvest his crop and warehouse same until there is legitimate demand from manufacturer above cost of production, so that he will not be forced to sacrifice his cotton. Bears insist that statement issued that Federal reserve will furnish credits for proper marketing of crops means that cotton must be immediately placed upon market after ginning, regardless of price, and not put in warehouse. Such construction of position of Federal reserve absolutely unthinkable. I beg you issue statement clarifying situation and telegraph me fully, permitting the reading of your telegram to convention assembled. Answer care American Cotton Association, Liberty National Bank Building, Columbia, S. C. This of vital importance to entire agricultural and commercial life of South.

J. S. WANNAMAKER,
President American Cotton Association.

ST. MATTHEWS, S. C., *August 10, 1921.*

W. P. G. HARDING,
Governor, Federal Reserve Board,
Washington, D. C.

Your telegram 9th. Your offer as follows: "Would be pleased to have your recollections of what occurred at conference September 15 and will file same with agricultural commission together with copy of press statement I issued immeditatly following conference." I have stenographic record of conference and written request was filed with you, the correctness of which can be vouched for by myself and others: I have used every effort possible by telegraph, realizing necessity saving time to point out to you grievous mistake you have made. I have pursued this course entirely as matter of justice to yourself, myself, and association, feeling assured you would immediately correct said statement and that you would insist that commission incorporate correction and that press carry same. Your offer to file press statement is distinct disappointment and am sincerely convinced is unjust to yourself and others. Such a course would entirely fail to correct mistake and undo injury which has been done us. I urge that you again reconsider matter of our request made at September conference. No request was made then nor have I ever made request that Federal reserve rediscount in excess of regular legal requirements on cotton paper with warehouse receipts, insured, secured by notes and safe margins to be always maintained. I flatter myself to extent that I feel convinced your judgment of me is that under no condition could I be induced to so far forget purpose for which Federal reserve was formed as to jeopardize its very existence by advocating that it rediscount cotton paper, in excess of 80 per cent of value of cotton, fully insured and stored, secured by farmers' notes, said paper to be kept fully margined at all times.

To request 32 cents per pound when cotton was selling at 28 cents New York equivalent to an outside of 27 cents in the South would be on a par with bolshevistic banking system of Russia. It would entail a loaning of 5 cents per pound in excess of value of cotton and 11¾ cents per pound in excess of highest amount that it would be safe to loan or which I would advocate. I have no personal feelings in the matter except one of deep regret over injury done and sincere desire to have mistake corrected. Mistake is of far too serious nature to permit it to stand. If it goes uncorrected it will practically destroy the little usefulness and influence I possess and usefulness and influence of association. Therefore, if you still decline to make correction, which I sincerely assure you I have requested you to make only as matter of justice to yourself, myself, and association, then it will become my duty to request commission to permit myself and others to make statements and furnish records leaving it to them to judge as to correctness of question at issue. Your confusion seems to be due to fact that in your statement you consider Montgomery price recommendation which was not presented and had no bearing on request made at September conference. You have entirely overlooked written request which was presented, read, and explained by sections and delivered personally to you. Request plainly stated rediscounts on agricultural paper not for purpose of hoarding or providing credit for speculating in spot cotton, but for sole purpose of providing for gradual and orderly marketing under adverse existing conditions and thereby providing a sure liquidation.

J. S. WANNAMAKER,
President American Cotton Association.

WASHINGTON, D. C., *August 11, 1921.*

J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.:

Your telegram. My testimony before commission covers 429 typewritten pages. Have not seen newspaper account you refer to, but all press reports I have seen are incomplete, and for this reason not altogether accurate. My testimony contains literal quotations from your letters and telegrams, and on reading it again on yesterday I am convinced it contains no inaccuracies, does not criticize your motives, and does you no injustice whatever. Statement presented to board by your association special committee on September 15 last has just been found after thorough search in board's general files and has been sent to commission with request that it be printed with rest of my testimony. This will, I think, make fair presentation of all angles of case. Understand my testimony will be printed and ready for distribution in few days and would suggest you withhold judgment until you see official record as printed. Will mail you copy as soon as obtainable.

W. P. G. HARDING.

AUGUST 11, 1921.

W. P. G. HARDING,
Governor Federal Reserve Board, Washington, D. C.:

Your telegram. On September 15 a special committee of our association, composed of leading bankers, merchants, farmers, and business men from 14 cotton-growing States, together with a number of United States Senators and Congressmen, appeared before and presented and fully explained the written request which you have now located in your files. Our request was made for the purpose of restoring confidence, for the further purpose of promoting orderly marketing of agricultural products, not for the purpose of holding or hoarding or speculating in agricultural products, not in the interest of any special section, but in the interest of agriculture and business of the entire nation. The reading of the request plainly confirmed this, and it was so stated in the conference.

Chairman Anderson of the joint commission telegraphed me that you testified before the agricultural commission as follows:

"In other words, they wanted us to sanction a loan of 32 cents a pound on cotton which was worth at that time normally on the market I think 28 cents a pound. I think the chart will show. And it went to 25 cents a pound, and then went down every month until it hit the bottom."

This statement by you before the commission has been furnished to me by Chairman Anderson of the agricultural commission, and the same statement has been carried by the press of the Nation, and unless corrected leaves the entire special committee and those taking part with us and myself condemned in the records of the agricultural commission and by the general public through the press as having attempted to induce the Federal Reserve Board to flagrantly violate the first principles of safe banking, and violate the law governing the Federal Reserve System, and accord to the cotton-producing industry special consideration to which no line of agriculture or commerce is entitled.

The written request which you have found proved beyond a shadow of doubt that the statement made by you before the board as above quoted is absolutely incorrect. Note you have sent the request we made to the board on September 15 to the commission, with request that it be printed with the rest of your testimony. Myself and the entire committee stand unjustly condemned in the records of the agricultural commission as result of the testimony given by you and also stand unjustly condemned by the American public as result of the statement given by you carried in the press as quoted by Chairman Anderson above.

Therefore, in justice to yourself, the members of the Federal Reserve Board attending the September conference, the special committee and all who were engaged in the special conference as outlined above, in justice to our association and the general public, your statement should be immediately corrected in conformity with the facts in the case, said correction being made both in the records of the commission as they will appear in your statement before the commission and through the Associated Press, and unless this correction is immediately made by you, then, in justice to all parties named above, it will be absolutely necessary for us to make correction with agricultural commission and through press, so as to keep the records straight and to furnish the commission with the correct facts and place ourselves in the correct light.

The written record of the request made by us in the September conference which you have found in your files is proof positive as to the serious mistake you made and the great injustice done, and delay in correction of this mistake will add to the injustice, and most assuredly the proper course to pursue is for this mistake to be corrected by you instead of by us. Will you please file copy of this telegram and copies of the several telegrams we have sent you in the last few days concerning this matter, together with copies of your replies, with the commission and have same appear in that section of the records carrying your statement, so as to further clarify the matter, in addition to issuing correction requested?

J. S. WANNAMAKER,
President American Cotton Association.

WASHINGTON, D. C., *August 12, 1921.*

J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

I can not agree with conclusions reached in your telegram August 11, but, in accordance with request, have sent all our recent telegraphic correspondence to Chairman Anderson, agricultural commission, for such dispostion as he may wish to make of it. Every statement made by me is borne out by correspondence introduced at hearing and I have nothing further to give to press at this time.

W. P. G. HARDING.

I also want to read the affidavit of the stenographer recording the conference of the representatives of the American Cotton Association with the Federal Reserve Board September 14 and 15, 1920, as to the correctness of request made by the association, the press statement prepared by the association, and as to what transpired at the conference with the Federal Reserve Board, as follows (reading):

STATE OF SOUTH CAROLINA,
County of Calhoun.

Personally appeared before me Joseph M. McCabe, who makes oath that he was employed in the capacity of stenographer for the special committee of the American Cotton Association which met at Washongton, D. C., on September 14 and 15, 1920. That at the meeting of the committee held at the New Willard Hotel, Washington, D. C., on September 14, 1920, after a full discussion, a special subcommittee was appointed to prepare a written request to be made of the Federal Reserve Board; that this committee retired, prepared this request, submitted it back to the full delegation, and same was unanimously adopted and on motion unanimously carried. That ex-Gov. R. I. Manning, of South Carolina; D. E. Lyday, of Texas; and J. S. Wannamaker, of South Carolina, were appointed as spokesmen for the delegation at the conference with the Federal Reserve Board, Mr. Manning being designated to read the said request, explain same, and deliver it to Gov. W. P. G. Harding, as head of the Federal Reserve Board; and it was specifically agreed that no other request would be made except that contained in the written request.

That in the joint session with the Federal Reserve Board these instructions were complied with and no other request was made of the Federal Reserve Board except the written request, a copy of which is attached hereto; that this request was read by ex-Gov. R. I. Manning, read by sections and delivered to Gov. W. P. G. Harding; that the request was discussed and the importance of the action requested therein being taken was emphasized by D. E. Lyday and J. S. Wannamaker. That Gov. Harding delivered a lengthy address before the conference, using as a basis of his address a written address which he had prepared to be delivered at Cleveland, Ohio, shortly after the conference. That after completing the delivery of his address, J. S. Wannamaker requested copies of Gov. Harding's address for publication, stating that the delegation felt a release of same would prove of much benefit to the reestablishment of confidence; that the policy of the Federal Reserve Board as outlined in said address would result in granting even more liberal treatment than requested in their written request, and that they expressed sincere appreciation of this action, stating they felt it would bring not only great benefits to the cotton growers of the South but to the agriculture and commerce of the entire Nation.

(Signed) JOSEPH M. MCCABE.

Subscribed to and sworn before me this 19th day of August, 1921.

J. H. LORYEA,
Notary Public, South Carolina.

I want to read the statements in the letters from the men who attended that convention. Some of them are here, and if you call upon them they will be glad to testify. These telegrams I have already asked to read into the record, and have read them.

The CHAIRMAN. Those were the telegrams between you and Gov. Harding?

Mr. WANNAMAKER. Yes, sir. Here is a telegram from William Coleman, of Union, S. C., as follows [reading]:

UNION, S. C.

J. S. WANNAMAKER,
President, St. Matthews, S. C.:

Your letter; feel sure of weapon being true; doubt, however, your long-range policy; suggest you go to Washington and tell the truth or that you toll the bell; take men like Gov. Manning with you, and if you so desire I shall be glad to join you there regardless of expense of time and money.

WILLIAM COLEMAN.

Here is a letter from H. W. Fraser, of Georgetown, S. C., which is as follows [reading]:

AUGUST 15, 1921.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

DEAR SIR: Yours of August 12 received. I remember that at the meeting in Washington the request that we made to the Federal Reserve Board was as you have it, that we asked for no specific amount to be loaned on cotton. Evidently Gov. Harding got mixed up on the Montgomery proposition. I am not at all sure that I could go to Washington as business here requires practically every moment.

I am returning herewith the papers sent us.

With kind regards.

Yours, very truly,

H. W. FRASER, *President.*

The following is a letter from ex-Gov. Richard I. Manning, written from Columbia, S. C. [reading]:

AUGUST 13, 1921.

Mr. J. S. WANNAMAKER,
St. Matthews, S. C.

MY DEAR MR. WANNAMAKER: I have yours of the 12th with inclosures.

I have read the copy of the statement made before the Federal Reserve Board September 15, 1921, and the same is correct also the stenographic report of that conference.

I had a talk with Gov. Harding day before yeasterday in Washington. He asked me to say to you that, if you would wait until he gets a typewritten statement of his testimony before the congressional committee, you will be satisfied that he did not make the statement that we asked for loans of 32 cents per pound, basis middling, in New York. I told him that we had made no such request; he said that the testimony covered 400 pages and that you would be satisfied when you saw that report. I am positive that we made no mention of any loan price at the meeting in Washington.

I would cheerfully appear before the committee if summoned, not only to clear up this matter, but to emphasize the conditions before us and the necessity for financing the cotton this fall when I apprehend the demand will not be sufficient to absorb the offerings and that the policy of making loans on cotton, properly warehoused and insured, is necessary again to prevent disaster, not only to the growers, but to the banks and to prevent loss to the Nation.

I send this at once and will take up the other matters without delay.

Sincerely, yours,

RICH. I. MANNING.

I expect to see money easier and rates lower this fall.

I will also read a letter received from R. C. Hamer, of Columbia, S. C. [reading]:

AUGUST 16, 1921.

Hon. J. S. WANNAMAKER,
St. Matthews, S. C.

MY DEAR MR. WANNAMAKER: I have your letter relative to the conference held with the Federal Reserve Board of Washington on September 15, 1920; also inclosure including telegrams passed between Gov. Harding and yourself and stenographic copy of the report of the meeting; also statement which was read and explained section by section and presented to the Federal Reserve Board by a special committee. All of these, at your request, I am returning for your files.

According to my best recollection the statement which was presented to the Federal Reserve Board with the request is absolutely correct. The stenographic report of the conference is also correct.

I read with much interest the telegrams that you have received from Gov. Harding and feel sure that he is laboring under the wrong impression as to our request made of the Federal Reserve Board on September 15.

If I can be of further service or furnish additional information please call upon me.

Wishing you much success in your undertaking and with kind regards, I am,

Sincerely, yours,

R. C. HAMER,
President South Carolina Cotton Association.

Here is a letter from L. I. Guion, also of the South Carolina division of the American Cotton Association, as follows [reading]:

LUGOFF, S. C., *August 15, 1921.*

J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

DEAR MR. WANNAMAKER: Yours of 12th came to me to-day, evidently being delayed. You are absolutely correct in your memory of our meeting in Washington. Nothing was ever said about the amount per pound to be loaned on cotton. Furthermore, in replying to Gov. Harding's reference to coming to Washington "begging," you positively stated, with indignation, that before you would beg him or anyone else for anything you would be willing for the South to return to conditions existing in the South during the sixties, plow a mule for a living, see the schoolhouses closed, and again sleep under a roof through which you could see the stars. You further stated you were only asking for what we were entitled to.

The greatest damage the Federal Reserve Board has done has been by innuendo—grapevine telegraph—issuing statements that were cross-eyed and constituting themselves an advertising agency to depress business. Gov. Harding and his pals, including D. F. Houston, absolutely destroyed confidence throughout America and his statement concerning our conference in Washington further convinces me of his unfitness to hold the high office he occupies.

I will write the letters asked for but please do not expect me to clothe my indignation under such a cloak as "scintilla of correctness." Nothing short of Roosevelt's "damn lie" will cover the statement of Gov. W. P. G. Harding.

Yours, truly,

L. I. GUION.

If I can serve you, of course, I will go to Washington, but I am very busy and very short of funds; but I will go if I can be of service.

L. I. G.

The following is a letter from Lem Banks, of Memphis, Tenn. [reading]:

AUGUST 15, 1921.

Mr. J. S. WANNAMAKER,
St. Matthews, S. C.

DEAR SIR: Yours of the 12th received. In reply thereto will say that my recollection of the Washington conference is that after considerable consideration the committee prepared the statement which was presented to Mr. Harding by you, Gov. Manning, and Mr. Lyday. I have no recollection of any specific sum being mentioned when the matter was presented to Mr. Harding. At that time some people who had attended the Montgomery meeting felt that the recommendation there was too high and that it would hardly be sustained no matter what was done; however, what was done at the Montgomery meeting was merely a recommendation.

The absurdity seems to me to appear on its face, if Gov. Harding thinks that men considered reasonably sane spent their money and time to attend a conference at Washington and then urge him to advance 32 cents a pound on cotton that was only worth 28 cents. It seems to me that Gov. Harding of necessity must draw the conclusion that he misunderstood the conference at Washington, as it was represented to him at that time, or else the people who attended that conference were common everyday fools.

In accordance with your request I am writing a letter to the parties mentioned in your letter and inclose you a copy.

You no doubt recall that the newspaper gave a very garbled account of the meeting of the conference with Gov. Harding. It is my impression that the newspapers of the United States, at least many of them that are of most influence, are controlled by the people who either do not understand southern agricultural conditions or find it to their interest not to give a square deal and accurate reports in such meetings.

It is my idea that probably Gov. Harding formed his opinion of what the South wanted from the newspaper reports of the Montgomery meeting, and that with that lodged in his mind the conference at Washington was of no particular effect.

I am not able to go to Washington, and if I were in position to go I do not see that it would be of any particular value. What particular difference does it make now whether 28 cents or 32 cents was mentioned at the conference? As I understand the proposition, it is something to be done for the present and future rather than what took place at a conference in the past. Of course, you understand that I thoroughly

sympathize with your effort to relieve yourself as president of the association of the apparent absurd position in which Gov. Harding's statement might place you, but on the other hand I think the commission itself will realize that you could not have been guilty of the absurdity.

I herewith return the papers which you inclosed with your letter.

Yours, very truly,

LEM BANKS.

The following is a letter written on August 15, 1921, to Senator McKellar [reading]:

AUGUST 15, 1921.

Hon. K. D. MCKELLAR,
Washington, D. C.

DEAR SIR: I have a letter from Mr. J. S. Wannamaker stating that recently, in his testimony before your commission, Gov. Harding uses these words with reference to the presentation by the committee of the American Cotton Association at Washington, September 15, 1920:

"In other words, they wanted us to sanction a loan of 32 cents a pound on cotton which was worth at that time normally on the market, I think, 28 cents a pound."

I was a member of this committee and was present when the matter was presented to Mr. Harding, and certainly Mr. Harding is in serious error in making the above statement. It seems to me that upon the face of it neither he nor any member of the commission could think that men of reasonable intelligence, even though farmers, would have gone to Washington and spent the necessary time and money to urge the Federal Reserve Board to make loans of 32 cents on cotton which was then selling at 28 cents. At the meeting held in Montgomery early in September there was a recommendation made that the farmers should hold their cotton for 32 cents, as I recall the figure. That was by no means with the approval of all who were at the first Montgomery conference. It was merely a recommendation of that conference, and I imagine Mr. Harding, from some newspaper report, got the 32 cents fixed in his mind and thought it applied to the meeting which he had with the committee.

A statement less than one page in length was carefully prepared and presented to the Federal Reserve Board through Gov. Harding, in which no specific figure was named, but the request was made that renewals of existing loans be allowed and that loans be made on cotton properly warehoused to enable gradual and orderly marketing of the crop. No doubt you have had presented to you by Mr. Wannamaker a copy of this statement, so I merely give the substance of it in this letter.

It seems to me that there is clearly a misunderstanding and confusing in Gov. Harding's mind of the recommendation of the general meeting at Montgomery with what was presented to him by the special committee at Washington. I heartily agree with Mr. Wannamaker that the members of this committee ought not to be placed in the absurd position in which they will appear if this statement of Gov. Harding remains uncorrected.

Yours, very truly,

LEM BANKS.

I will also read a letter from L. S. Tomlinson, of Wilson, N. C., as follows [reading]:

AUGUST 15, 1921.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

MY DEAR MR. WANNAMAKER: Your letter of August 12 inclosing correspondence with Gov. Harding and Mr. Anderson has been read with a great deal of interest. Every day since reading Gov. Harding's statements before the investigating committee I have been thinking of writing you.

My mind is very clear as to what took place before the Federal Reserve Board at our conference on September 15, 1920, and know positively that 32 cents or no other amount was mentioned. In fact, we did not ask for any specific amount to be advanced against cotton. What Gov. Manning, Mr. Lyday, and yourself had to say and Gov. Harding's reply as shown in the stenographic report is my distinct recollection of what happened.

I believe I could have repeated the report of the committee from the American Cotton Association adopted by the full committee and presented by Gov. Manning section by section to the Federal Reserve Board.

It is very unfortunate that Gov. Harding should have made such statements before the investigating committee. The amazing feature of the situation is the fact that he

is not willing to correct the statement; being convinced that he has misrepresented our association it seems to me he should hasten to correct the impression that has gone out from Washington through the newspapers.

If you go to Washington to appear before the investigating committee, notwithstanding the fact that I have given a majority of my time for the last five years, I will be glad to accompany you on this errand. I am leaving to-day for Richmond to attend the directors' meeting of the retail merchants' conference of Virginia, the Carolinas, and Georgia. Therefore, I will not have time to write our Congressmen and Senators as you suggest. But on my return home the latter part of this week, if that will not be too late, I will be glad to do as you have requested.

I am truly sorry to learn that your health is not good. Hope you will soon be strong again and that Gov. Harding will recognize the necessity and justice of making a corrected statement before the commission and will give the press a copy.

With kind personal regards and assurance of my esteem, I am,

Very truly, yours,

L. S. TOMLINSON.

The following is a letter written by J. A. Brown, of Chadbourn, N. C., to Senator F. M. Simmons [reading]:

AUGUST 13, 1921.

Hon. F. M. SIMMONS,
Washington, D. C.

DEAR SENATOR: I note from press reports that Gov. Harding, of Federal Reserve Board, has been quoted as saying that the Southern Cotton Association through its committee that appeared before the board September 15, 1920, advocated or requested loans on cotton at 32 cents per pound.

If Gov. Harding did so state he was in error, as I was a member of the committee and insisted that the committee present its views in writing, which was done, and a copy filed. The statement of Gov. Harding, if correctly reported, is an error.

I feel that the committee should be heard, as it places ex-Gov. R. I. Manning and Senator Dial and about 40 others in a ludicrous position.

I must think that Gov. Harding's mind is a little confused and that he has the statement of some individual confounded with the committee that appeared before the board September 15, 1920.

Yours, very truly,

J. A. BROWN.

This is a letter from J. W. McGrath, president of the Mississippi division of the American Cotton Asssociation [reading]:

BROOKHAVEN, MISS., *August 16, 1921.*

Mr. J. S. WANNAMAKER,
St. Matthews, S. C.

DEAR MR. WANNAMAKER: Your special-delivery letter of the 13th instant received.

I was one of the committee of five which was appointed at the caucus held on the night of September 14, 1920, to prepare the statement which was presented to the Federal Reserve Board by the committee of 50 on the following day.

This paper was what its caption indicates—a statement of facts regarding the financial condition then existing in the cotton-growing States of the South.

I gave close attention to the explanations made at the conference with the Federal Reserve Board by ex-Gov. Manning, of South Carolina, Mr. D. E. Lyday, of Texas, and yourself.

I also gave undivided attention to the response of Gov. W. P. G. Harding and heard the paper he read for our edification.

At no time, neither at the caucus held the night before, nor at the joint conference held with the Federal Reserve Board on the morning of September 15, 1920, was any mention made of such a ridiculous request that the Federal Reserve Board be asked to discount agricultural paper based on cotton at 32 cents per pound when the market value was only 38 cents per pound.

This committee of 50 consisted principally of business men, and it is an insult to their intelligence to think that they would entertain such a silly proposition.

I think you should demand a hearing before the investigating committee if Gov. Harding refuses to make correction.

Very truly, yours,

J. W. MCGRATH.

P. S.—There is no doubt that the enforced deflation plan of the Federal Reserve Board, aided by the Secretary of the Treasury Houston, has brought about the terrible business depression from which the country has been suffering for over a year. The persistent newspaper statements which were credited to Messrs. Houston and Harding had a tendency to put fear in the hearts of all of us.

I suppose they meant well, but they played h———.

The following is a letter written by R. E. L. Wilson, of Wilson, Ark., to the chairman of the commission [reading]:

AUGUST 16, 1921.

Hon. SYDNEY ANDERSON,
Chairman of Agricultural Investigating Commission, Washington, D. C.

MY DEAR SIR: My attention has been called to certain statements recently made before your committee by the Hon. W. P. G. Harding, governor of the Federal Reserve Board, to the effect that at a conference held in Washington on September 15, 1920, between the American Cotton Association and the Federal Reserve Board, that the American Cotton Association asked the Federal Reserve Board to grant loans of 32 cents per pound basis middling cotton, which was selling at that time at 28 cents per pound basis middling in New York.

I was present and participated in the conference referred to, and I know Mr. Harding's statement to be incorrect. No such request was ever made at the conference. Mr. Harding has cast reflection upon the entire South by making this statement, and the integrity of the delegates to the conference is questioned; yet it is my understanding that Mr. Harding after having his attention called to his misstatement absolutely refuses to correct or retract the same.

I ask that this letter be read into the minutes of your proceedings.

Yours, very truly,

R. E. L. WILSON.

This letter is from J. A. Moss, of Washington, Ga., as follows [reading]:

AUGUST 18, 1921.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

DEAR SIR: Yours of the 12th received and contents noted. In reply I will say at no time during the meeting in Washington, D. C., of September 15, 1920, did I hear any such proposition to Gov. Harding of the Federal Reserve Board, asking that the board advance 32 cents a pound on cotton when it was bringing only 28 cents upon middling basis in New York. No such request was ever made in my presence or in my hearing, but, the request formulated by the committee appointed by the delegation of Gov. R. I. Manning, of South Carolina, D. E. Lyday, of Texas, and yourself, and copy of which is inclosed, is the correct request made to the Federal Reserve Board on said date and you are entirely correct in your denial of the statement that we ever made a proposition for a loan of 32 cents per pound for cotton when it was only 28 cents upon middling basis in New York.

I would be glad, if possible, to meet you in Washington, D. C., if you will notify me of the time when you will appear before the Agricultural Committee. I shall write our Congressmen and Senators giving them the facts as I recollect them.

Wishing you success in your noble fight for this cause, I am,

Respectfully,

J. A. MOSS,
One of Committee.

MONTGOMERY, ALA., *August 19, 1921.*

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

DEAR MR. WANNAMAKER: I hereby certify that the report submitted to me by you is a correct copy of the report as made of our conference with the Federal Reserve Board on September 15, 1920.

Yours, very truly,

JOS. O. THOMPSON,
General Manager Alabama Division, American Cotton Association.

The CHAIRMAN. Let me ask you a question about this to see if I can get it straight in my own mind. At this Montgomery convention, which was a convention of cotton people, all over the South certain representations were made?

Mr. WANNAMAKER. Yes, sir.

The CHAIRMAN. Did they at this convention select the committee which subsequently met with the Federal Reserve Board?

Mr. WANNAMAKER. Yes; but it had nothing whatever to do——

The CHAIRMAN (interposing). Well, never mind what it had to do with it. Answer the question.

Mr. L. S. TOMLINSON. Mr. Chairman, this recommendation of the 40 cents a pound was made at the semiannual meeting of the cotton association September 3, 1920. Then there was another conference composed of bankers only called, not of the growers, at a later date, which had nothing to do with this 40 cents a pound recommendation, but which appointed a committee to come to Washington.

The CHAIRMAN. There was a recommendation at the Montgomery convention?

Mr. WANNAMAKER. Yes; we do that every year, but it had no bearing on this thing whatever.

Now, instead of the carefully prepared statement which was prepared by Congressman Lever, and Gov. Manning, and others, there was a different statement appeared in the press the next morning stating that representatives of the cotton men came before the Federal Reserve Board and asked for $500,000,000 for the purpose of holding their cotton, and that they were told to go back home and stand on their own feet. They were to go back home and quit talking calamity; and they were to quit thinking that the Government is an eleemosynary institution, and so on. The statements appeared in the press.

I wrote to Gov. Harding and told him I was mortified at the statements that appeared in the press. He wrote back and said that he was not responsible for the statements.

The CHAIRMAN. Was there a record made of these proceedings before the Federal Reserve Board?

Mr. WANNAMAKER. Yes; I have read them to you, and am going to read you the rest of them. I have read you copies of telegrams between Gov. Harding and myself, and the letters from some of the men who were present at that meeting.

The CHAIRMAN. Have you got a copy of these Montgomery recommendations there?

Mr. WANNAMAKER. Yes, sir.

The CHAIRMAN. You may put those into the record.

Mr. WANNAMAKER. I will be glad to do so. Gov. Harding has already put them in the record.

The CHAIRMAN. There is no dispute then as to what is in the record?

Mr. WANNAMAKER. They have nothing to do with this hearing at all. Gov. Harding has a copy of the Montgomery resolution.

Representative TEN EYCK. The meeting you refer to is the Washington meeting?

Mr. WANNAMAKER. Yes. As a result of this exchange of telegrams between Gov. Harding and myself—the telegrams which I

have read—he said that he did not have the request. I said I had a stenographic report of the meeting, and I insisted on him placing it right before the public. I said I had the written request. He said "I will file it with the board and attach your request for a conference, if you will send it to me, and will also attach the newspaper accounts of the conference which I, Gov. Harding, prepared." The only newspaper account I would have to have you enroll in your records is that one, because it was not true. We never asked for it.

Now, gentlemen, I have a copy of the testimony of Gov. Harding which I want to refer to. This is the original testimony brought out before your board in answer to questions.

Gov. Harding's testimony before the commission concerning the American Cotton Association is very voluminous. He introduced many letters from me as president of the American Cotton Association and letters written by him to me. He has seen fit to omit many letters that would immediately throw an entirely different meaning upon the matter had these letters been furnished to the commission. In addition to this, his testimony is incorrect in quite a number of important matters. The incorrectness could be proved by written records and by witnesses. I will only confine myself to a correction of two of his incorrect statements in his testimony. First: The statement that the special committee of the American Cotton Association requested the Federal Reserve Board in September to take necessary steps or to approve of a sanction of loans of 32 cents per pound on cotton has no foundation, and in fact is flagrantly incorrect, as I will prove by written records and by sworn statements.

Second. The statement in Gov. Harding's testimony that he urged that I advise my friends to sell cotton in July, 1920, stating that it was then at the high point and that his prediction was correct, that it reached the high point that day, 43 cents. I will introduce a letter which will put an entirely different light on this statement. The advice given was in reply to a letter from me, pointing out the fact that the producers could only sell their best grades of cotton as result of the conditions which had been created. His advice was that I urge them to sell their best grades for the purpose of easing up the banking situation, enabling them to carry their low grades. In his letter he stated that good grade cotton had reached the highest point of the advance that day; he made no prediction that it had reached the highest point to which it would go. He fails to incorporate in his testimony the result of my efforts to sell good grade cotton, which was furnished to him. The manufacturers absolutely refused to buy except in a limited way, stating that under no conditions would they purchase otherwise than in a hand-to-mouth way as long as the deflation policy of the Federal reserve continued, as it had already destroyed confidence, destroyed markets, and resulted in the cancellation of orders that had been booked with them, and it meant the certainty of far lower prices if continued. Gov. Harding's testimony concerning the American Cotton Association should be read in connection with my testimony. [Reading from Gov. Harding's testimony before the commission:]

The CHAIRMAN. Did the convention itself come to any conclusion?

Gov. HARDING. This was the conclusion of the convention called on the 2d of September, which they wanted me to go to, but I did not go. And then they appointed a committee to come up here, saying, "We want you to issue a statement, now, based

on this." In other words, they wanted us to sanction a loan of 32 cents a pound on cotton, which was worth at that time normally on the market, I think, 28 cents a pound, I think the chart will show. And it went to 25 cents a pound, and then went down every month until it hit the bottom.

Of course, all I could do—I was sympathetic—I never was so sorry for people in my life; I am always sorry for people who can not see the conditions.

I guess I talked for about 20 minutes, or such a matter. I had a speech on hand that I was going to make in Cleveland the next day, so I read most of that speech, of which I put in the greater part. And everybody did a lot of talking, and making a lot of suggestions, and had a nice time, just as a lot of southern people can do, when they get together.

Here is Gov. Harding's correction [reading]:

Gov. HARDING. This was a conference with a committee sent by the convention which met in Montgomery on the 2d of September, which I was asked to attend, but I did not go. The committee came here and asked the board to issue a statement assuring producers that the Federal Reserve Board would finance loans on cotton in warehouse until there was a legitimate demand from the manufacturer, at a price sufficiently above the cost of production, to bring the producer a reasonable profit. This cost of production was shown to be around 32 cents a pound. Middling cotton was quoted in New York at that time at about 31 cents a pound, and a few days afterwards at 28 cents, then 25 cents on October 1, and then went down every month until it hit bottom.

Of course, all I could do—I was sympathetic—I never was so sorry for people in my life; I am always sorry for people who can not see conditions as they are.

I guess I talked for about 20 minutes or more. I had a speech on hand that I was going to make in Cleveland the next day, so I read some of that speech, which I have put in the record here to-day. And everybody talked and made suggestions, and we had a nice, sociable time, just as Southerners have when they get together.

In the course of the conference there was presented by the chairman of the special committee of the American Cotton Association the following statement to which I have already referred:

"Statement to be presented to the Federal Reserve Board by a special committee of the American Cotton Association, September 15, 1920."

(Copy of resolutions inserted.)

The CHAIRMAN. Let me ask you, were these resolutions of the Montogomery convention ever transmitted to the Federal Reserve Board?

Mr. WANNAMAKER. No, sir; I sent to Gov. Harding individually a copy of the minutes of that meeting, which had nothing to do with this.

The CHAIRMAN. I am not asking you that; I am asking you whether they were sent to the Federal Reserve Board?

Mr. WANNAMAKER. No, sir; I sent Gov. Harding personally a copy of the resolutions. That had nothing to do with this hearing.

The CHAIRMAN. At the time of this convention here, if you had sent a copy of the Montgomery resolutions to Gov. Harding he must have known what the situation was?

Mr. WANNAMAKER. Yes; anybody interested in cotton would know what it was. It was not mentioned in the meeting. Every word that was said in the meeting I have read.

The CHAIRMAN. What I want to know is whether the Montgomery convention represented the position of the southern cotton people on this question?

Mr. WANNAMAKER. No, sir.

The CHAIRMAN. If not, why not?

Mr. WANNAMAKER. Mr. Anderson, we had conceived this position: That we were in a terrible predicament; we were absolutely prostrated. The manufacturer would not buy the common grade; he would not buy anything. So our whole purpose and hope was to

reestablish confidence until we would get exports moving in some way.

The CHAIRMAN. And still at this Montgomery convention you were of the opinion that cotton should sell at 40 cents a pound?

Mr. WANNAMAKER. No, sir; nothing of the kind.

Please keep this fact in mind: The Montgomery conference or its proceedings had no bearing directly or indirectly on the conference held with the Federal Reserve Board in September. At the Montgomery conference, based upon the cost of production as shown by the Government, based upon the cost as ascertained by our association through experts, and based upon the price for which the manufactured product was being sold, we found that 40 cents basis middling would show us an actual loss on cotton, based upon the enormous difference between grades. This would have only netted us 27 cents per pound bulk line, that is, if the farmer would sell his entire crop, and the manufacturer could pay 40 cents based upon the price of manufactured products and still make a profit. One of the leading experts of England who attended the conference was consulted by a special committee who had entire charge of the matter of a recommendation of what we could expect as a reasonable price for the 1920 cotton crop, and when being requested to name what he considered as a fair price, he stated: "On account of the deplorable collapse in business, it will be necessary for you to accept your portion of the losses; you should, therefore, be satisfied to accept a price of 40 cents basis middling, which based upon the differences will show a heavy loss." While we realized that the manufacturer, based upon the price of his manufactured goods at that time, was showing no such loss, still we recommended that 40 cents per pound basis middling, taking everything into consideration, was a fair price. We realized when we recommended this price, that unless we could get the War Finance Corporation reinstated so that cotton could be exported, and unless we could get the policy of artificial deflation which was put on by the Federal Reserve Board reversed, it would be impossible to get such a price. I issued a statement that was carried by the press at the Montgomery convention in which I stated that unless we could get the War Finance Corporation to function and the policy of artificial deflation reversed, that cotton would sell at 10 cents to 12 cents; that if we could get this policy reversed and the War Finance Corporation promptly reinstated, that it would sell for 40 cents to 50 cents. I quoted in my statement a famous English expert who confirmed my statement and made additional public statement at the convention at Montgomery as follows:

"I have cabled the English manufacturers and other European manufacturers that I represent urging that they withdraw entirely from the cotton market. I stated to them that, regardless of the fact that the American cotton crop will fall far short of the 15,000,000 bales, of which we are in pressing demand, due to the removal of the War Finance Corporation and the policy of deflation, that we are due for an underconsumption, unless his policy can be reversed, and that as result of this underconsumption cotton will go to 10 to 12 cents per pound; whereas, if the channels of trade can be opened up and the policy now in America reversed, cotton will sell for 40 to 50 cents per pound from the growing cotton crop."

Statements similar to this were carried by the leading press throughout the Nation at the time of the Montgomery convention.

Representative TEN EYCK. How long was it between the Montgomery meeting and the meeting you held in Washington?

Mr. WANNAMAKER. About two weeks. The Montgomery convention was not mentioned in any way there. If you will read that you will find it was for the purpose of carrying the agricultural paper, and that was all.

Representative TEN EYCK. Did the price of cotton go down between the Montgomery meeting and the Washington meeting?

Mr. WANNAMAKER. Yes, sir; it kept going down.

Representative TEN EYCK. Do you know about how much?

Mr. WANNAMAKER. I think his quotation is right. You could not sell it. The bankers were getting very uneasy.

Now, here, gentlemen, is a true copy of the press statement prepared by Gov. Richard I. Manning and Congressman A. F. Lever, Mr. Lyday, and myself, and not one word of which appeared in the press.

The CHAIRMAN. How long after your meeting was this statement prepared?

Mr. WANNAMAKER. Immediately after the meeting. Then Gov. Harding asked me not to release anything to the press—to the newspaper men, but the newspaper men said, "You had better release something, if you want to get it out." Then we got together and prepared this statement and released this statement to the press.

The CHAIRMAN. Do you remember what time of the day that statement was released?

Mr. WANNAMAKER. The same afternoon; between 6 and 7 o'clock that afternoon, because we were leaving that evening for the South.

The CHAIRMAN. What day was that on?

Mr. WANNAMAKER. On the 15th of September, sir. I want to read the statement. [Reading:]

CONFERENCE OF AMERICAN COTTON ASSOCIATION REPRESENTATIVES WITH FEDERAL RESERVE BOARD.

WASHINGTON, D. C., *September 15, 1920.*

More than 50 representatives of the American Cotton Association, representing the agricultural and commercial life of the cotton-producing section of America, headed by President J. S. Wannamaker, conferred with the Federal Reserve Board on September 15 relative to the cotton situation.

Ex-Gov. R. I. Manning, of South Carolina, presented the case for the cotton association, pointing out that the association, while speaking primarily of cotton, really included in its wishes all staple agricultural products. He emphasized that the American Cotton Association was not asking for anything, but had come rather for the purpose of getting a better understanding of the board's policy with respect to credits for orderly marketing of agricultural products.

Gov. Harding, responding for the board, emphasized the thorough agreement of the board with the American Cotton Association in the desire for the gradual, orderly marketing of staple agricultural products, especially cotton.

Gov. Harding, with more than ordinary emphasis, drew attention to the fact that there seemed to be an organized effort to mislead the public as to the policy of the Federal Reserve Board touching the matter of the contraction of credits to essential industries, including especially all agricultural products. While stating that the board had undertaken to reduce credits for nonessential and for speculative purposes, he pointed out that it was not now the policy of the board, nor had it been, nor would it be, to restrict credits for the assistance of essential industries and especially agricultural products. He produced figures to show that from September 1, 1919, to September 1, 1920, there had been a larger extension of credits for essential purposes than at any period in the history of the country except the period of 1917–18, and that since the end of August this year on account of crop-moving demand the Federal reserve-note issues have been increased at a rate of from thirty to forty millions of dollars a

week, and that bills discounted in vault of the Federal reserve banks had increased at a rate of about fifty millions of dollars a week. Gov. Harding pointed out that whatever liquidation had gone on through the Federal reserve system recently was for the very purpose of putting the member banks in a position to take care of this very situation which he foresaw more than a year ago.

The impression was distinctly given that the board's policy was sympathetic to an orderly movement of the crops and that such a movement was a necessity dependent to a large extent upon the credit situation.

Among other suggestions Gov. Harding spoke of the need for the formation of export corporations under the terms of the Edge Act and drew attention to the fact that under the terms of this act the capital stock of such corporations might be subscribed in cotton. He referred to recent conversations with several Washington representatives of central European countries who expressed the desire of a need for low-grade cotton, but who pointed out that these countries could not go into the market unless credits could be extended to their manufacturers for periods of from six to nine months. These manufacturers would give as collateral liens upon the cotton in process of manufacture backed by the joint indorsement of a consortium of banks and further guaranteed by the Governments themselves. Gov. Harding indorsed strongly the efforts of the American Cotton Association to organize such export corporations and expressed the belief that in their operations a way for such a distribution of cotton as would bring the manufacturer and producer thereof in direct contact with each other.

At the conclusion of Gov. Harding's statement, President Wannamaker and other delegates expressed their complete satisfaction therewith and the belief that such a reassuring statement as had been made to the delegation would meet a quick response throughout the country in a more optimistic view of the future of all enterprises and especially of those engaged in the production of agricultural necessities.

STATE OF SOUTH CAROLINA, *County of Calhoun:*

Personally appeared before me Joseph M. McCabe, who, being duly sworn, makes oath that he recorded the conference between the American Cotton Association and the Federal Reserve Board at Washington, D. C., on September 15, 1920, and that the above is a true and correct copy of the article prepared by the special committee of the American Cotton Association immediately following the conference mentioned; that this statement or article for the press was dictated to him by the special committee, was typewritten and delivered to the committee, approved by and copies delivered by the special committee to the press for release; that this occurred at a meeting of the delegation of representatives of the American Cotton Association assembled at the New Willard Hotel, Washington, D. C., immediately following the conference with the Federal Reserve Board.

JOSEPH M. MCCABE.

Subscribed to and sworn before me this 19th day of August, 1921.

[SEAL.] J. H. LORYEA,
Notary Public, South Carolina

Now, here is what appeared in the press [reading]:

RESERVE BOARD REFUSED AID TO COTTON GROWERS—GOV. HARDING TELLS REPRESENTATIVES CREDIT CAN'T BE EXTENDED TO ALLOW THEM TO HOLD CROPS.

WASHINGTON, *September 15.*

Requests of the American Cotton Association for governmental aid in financing the marketing of the cotton crop of the South were denied to-day by Gov. Harding, of the Federal Reserve Board.

The representatives of the association asked extension of credit on cotton loans estimated at approximately $500,000,000, in order to permit growers to hold their cotton and prevent dumping on the market at a loss.

The solution of the problem facing southern cotton producers, Gov. Harding said, lay with the producers themselves and in their home banks.

"Go back home and tell the people to quit talking calamity," the governor declared, suggesting that the cotton men sell their high-grade stock to meet demands as they arise, which would enable them to gradually liquidate their debts, and hold their low-grade cotton for a better market.

The Federal Reserve Board is keenly alive to the importance of doing everything to sustain agriculture in all sections of the country, the governor told the association members, but he added that the board was not authorized to deal in prices, though its actions might have an effect upon them. Recent estimates of the value of this year's staple crops are $22,000,000,000, the governor stated, and expansion of credit to assist producers in all parts of the country would mean about $3,000,000,000 in loans.

The CHAIRMAN. What paper did this appear in?

Mr. WANNAMAKER. This came to us through a clipping bureau; we got it in the Washington papers first. I think it was in the New York Journal of Commerce, and we got it from everywhere, through our clipping bureau.

The CHAIRMAN. This is an Associated Press dispatch?

Mr. WANNAMAKER. I would think so.

The CHAIRMAN. Is it so indicated in the dispatch you have?

Mr. WANNAMAKER. I will read this. It came out in Washington here.

The CHAIRMAN. In which paper in Washington?

Mr. WANNAMAKER. I think the Washington Post. We can find you a large number of these clippings.

The CHAIRMAN. Were the press representatives admitted to this conference of yours with the Federal Reserve Board?

Mr. WANNAMAKER. Not the first one. I will refer to the second one in a minute. They were not there. If so, they were present without our consent or invitation. I gave them later a statement and then went out and killed it. The only statement there was this one here [indicating].

The CHAIRMAN. If the representatives of the press were present at this conference without any understanding that the result of the meeting should not be made public, it is hardly to be expected that they would not put their own interpretation on what occurred there.

Mr. WANNAMAKER. Mr. Anderson, if you will bear with me, if you will remember the letters I read from the other members of the committee who were present, and this statement of this stenographer, which is sworn to, and I hope God Almighty will strike me dead before I leave this room if anything like what appeared in that other press notice, or if anything like what Gov. Harding testified before your commission, occurred there. If you can interpret what occurred there as being shown in that press dispatch, or as shown in Gov. Harding's statement before this commission, then you can interpret that wheat is cotton.

The CHAIRMAN. The only question in my mind is this: It is not a question of what you gave out if the members of the press were present at the conference. If the members of the press were there, they wrote up the conference in any way they pleased, without reference to what you gave out or did not give out.

Representative TEN EYCK. Did Gov. Harding have a stenographer there and did he take down notes of the meeting?

Mr. WANNAMAKER. I could not tell you about that.

Representative TEN EYCK. Did you have a stenographer?

Mr. WANNAMAKER. Yes; I have given you the statement of the sworn stenographer who was there, and the statement of 16 men from the South who were also present. I would be glad to give you under oath a statement of what occurred there.

The CHAIRMAN. Did the stenographer take the proceedings as they occurred?

Mr. WANNAMAKER. Yes; I have given you the statement of the stenographer. The meeting was very short. Gov. Harding's statement was there in writing. If it is of sufficient importance I can get all the men who were there to come up here.

Representative TEN EYCK. I would suggest that we ask Gov. Harding whether he had a stenographer there to take notes, and if he had, that we get them and insert them in the record.

The CHAIRMAN. I am quite sure that the Federal Reserve Board had no stenographer there. I will ask him.

Mr. WANNAMAKER. I will call your attention to this, that he telegraphed to me that he had found the written request, and that he would file it with you and attach to it the newspaper account which he, Gov. Harding, prepared.

Now, Mr. Chairman, following this meeting with the Federal Reserve Board in September, we returned home, thinking that this would have a good effect upon conditions; that it would start to reestablish confidence. We found that these dispatches had come out in various papers, and that we could not get anything out that was the fact, and that would bring an understanding, as we conceived it, that we had with the Federal Reserve Board. So I wrote to Gov. Harding, called his attention to that specific statement that came out and asked him if he could give me any account of how those statements occurred, or how we could correct them. I could not get them corrected at all, and confidence continued to be destroyed, and I realized that we would have to do something very promptly, or it was going to grow worse.

Please note Exhibit B, which is made a part of this report, as a reply to Gov. Harding's statement concerning the request made at this conference, and also concerning his statement as to advising the sale of cotton. As explained above and as shown by his letter, the sale of cotton was advised for the purpose of easing the banking situation. All efforts, however, to sell same proved unavailing, for the reasons stated above, the manufacturers declining to buy, and this in reply to my letter of July 17, marked "Exhibit C," as follows [reading]:

JULY 17, 1920.

Gov. W. P. G. HARDING,
Washington, D. C.

DEAR GOV. HARDING: I have recently received several letters from influential friends in the North and in the South who are thoroughly familiar with the cotton question. Many of these friends are members of the New York and New Orleans exchanges and are friends of ours, and are holders of spot cotton and producers. They all agree that the bear gamblers are flooding the country with statements that the Federal Reserve Bank will not loan the producer money to hold his cotton when it begins to move, but that the producer will be forced to sell his cotton at the market price. I am inclosing you confidentially several letters received.

Unless we can correct this situation, this statement will have very disastrous effect upon the producer and will succeed in stampeding him.

There is not a man in the country better posted than your good self, and no one more thoroughly in sympathy with the cotton producer and more anxious to assist him, and I feel sure that no such action will be taken by the Federal reserve bank. I sincerely hope that you can issue a statement to this effect. With the markets of Europe closed to our offgrade cotton and the lack of credits, this of course adds to the ability of the bears to beat down the price of cotton. The growing crop is the most expensive ever produced and it is largely being made with old men, women, and children, labor is extremely short and inefficient. Two million Negroes have left the cotton fields of the South since 1914 and this is the cream of the labor. The pro-

ducer is unable to compete with other lines of industry and unless the producer is able to put into force and effect the valuable advice that you have given him—that is, the warehousing of his cotton and stretching the sale over a period of months and only selling his cotton when a profitable price can be secured above the cost of production, instead of rushing upon the market 75 per cent in the three short months—we are facing the inevitable certainty of a serious loss to the entire agricultural and commercial life of the South.

With labor conditions such as they are the matter of harvesting the coming crop is causing serious concern; with the markets of the world closed to offgrade cotton, there being at present absolutely no demand for same, and the bear manipulators flooding the country with the statement that the producer will be forced to sell his cotton as fast as it is gathered and that credits will not be furnished for the same, you can readily see that it is inducing the producer to sell cotton ahead for fall delivery, thus stepping in the trap which has been carefully laid by those who have long profiteered upon our adversities.

I have never seen a more concerted effort made to induce people to sell cotton for fall delivery. The price of future cotton to-day is far below the cost of production and it is only as a result of the carefully laid plans of these manipulators that the producers are being stampeded into committing commercial suicide, and unless the lies being carefully circulated by the bears can be denied, the final result will indeed be disastrous.

I sincerely hope that in the interest, not only of the producer, but every line of legitimate business connected with the production of cotton, that you can issue a statement, without delay, clarifying this situation.

Assuring you of the highest personal regards, I am,

Sincerely,

J. S. WANNAMAKER, *President.*

Had it not been for the fact that the American cotton producer held his cotton hoping, working, and praying that markets would be opened and that he would have a legitimate demand for same, it would have had a far more disastrous effect upon not only the cotton industry but on all lines of business connected with the cotton-producing industry; in fact, had cotton been forced upon the market it would have been without a price; there would have been no demand for it, and hence it would have been without a loaning value, as loans could only be based upon a safe per cent of the price for which the cotton could be sold. I was informed by one of the leading cotton experts of the world, and since that time I have had this judgment confirmed by leading experts on the cotton question and finances and by business men, that it was only as result of the concentrated and continuous efforts of the American Cotton Association that a most disastrous selling panic was prevented on the part of the American cotton producer, and it is conceded that this panic would have been far-reaching in its destructive effect upon the business interests of not only the South but the entire Nation; the effect of such a course upon the financial institutions would have, indeed, been disastrous. As matters were the price of cotton declined so that there was only a limited demand at about one-third of the cost of production, and of the cotton sold under these conditions only a small portion of it was sold to the manufacturers, a large part being sold into the hands of speculators. Had the South attempted to have sold the usual amount of cotton that they had sold during harvesting periods heretofore—that is, 70 per cent of the crop in four months—as result of existing conditions through the destruction of confidence it would have brought wreck and ruin.

The opening cotton season in September, 1920, found the market at prices below the cost of production. Conditions rapidly grew worse. These conditions affected most seriously all staple crops

in fact, all agricultural products. There were no markets, except at one-third the cost of production. Realizing that conditions were reaching such a stage that relief to same was a national necessity, the American Cotton Association arranged to hold a joint conference in Washington with 22 agricultural associations, for the purpose of appealing to the President, his Cabinet, the Federal Reserve Board, and the Secretary of the Treasury for an immediate reversal of the policy which was bringing wreck and ruin to agriculture; first, by the reinstatement of the War Finance Corporation, and, second, by a lowering of the rediscount interest rates and a reversal of the policy for contraction of credits and currency.

In connection with this I wrote a letter to the President, a copy of which has already been introduced into the record, and I also wrote to the Secretary of the Treasury; a copy of that letter has also been introduced into the record.

I told President Wilson that as a result of the conference of the agricultural producers of the Nation that we, representatives of the producers of the entire Nation, were very anxious to hold a conference with him; that while we had 22 different organizations represented at our conference we expected to have representatives representing all the main lines of agriculture throughout the country. A copy of my letter to the President has already been read into the record.

Representative TEN EYCK. What date was that?

Mr. WANNAMAKER. October 7. The conditions continued to grow worse.

Representative TEN EYCK. What year was it?

Mr. WANNAMAKER. 1920; last year. Conditions got worse. Confidence was absolutely destroyed. In addition to writing to President Wilson I wrote to Secretary of the Treasury Houston, and asked for a conference with him, calling his attention to the reports that were being issued over his signature, and asked for a conference.

We came on to Washington. The President wrote a note and sent it around to where we were meeting, and said he was sorry that he could not meet with us on account of sickness. In the meeting were Senators and Congressmen, regardless of politics, and representatives from every main line of business and commerce.

The CHAIRMAN. Who was this meeting with?

Mr. WANNAMAKER. The representatives of the main lines of agriculture, including live stock, from all over the country. There were men there from your State, and many others.

The CHAIRMAN. Who did you have the conference with?

Mr. WANNAMAKER. We requested a conference with the President, which I am leading up to now, also with Secretary of the Treasury Houston, as we requested him to meet with us. After we got here we got a letter from the President's secretary that he could not meet with us.

We met in Washington in October, 1920, and with representatives from every line of agriculture, including live stock, from every State in the Union, and with representatives from many lines of commerce, in cooperation with United States Senators and Congressmen from both political parties, we appeared before the Secretary of the Treasury and made a unanimous plea for the reinstatement of the War Finance Corporation and for a reversal of the policy of drastic defla-

tion, pointing out the wreck and ruin which was being wrought. We filed with the Secretary of the Treasury an earnest protest against the continued publicity that he was at that time issuing through the press against prices.

Secretary of the Treasury David Houston's statement denied that he had issued statements credited to him in the leading press of the Nation. These statements quoting Secretary Houston in same stated that under no conditions would he permit the Government to furnish financial assistance for the holding of agricultural products, as that would be a conspiracy in restraint of trade. Other statements quoted Secretary Houston as stating that any assistance rendered by the Government that would result in maintaining the present prices of agricultural products would be a conspiracy in restraint of trade; that prices must return to prewar levels. Other statements stated that Secretary Houston had stated that he positively refused to comply with repeated requests made by agricultural producers for financial assistance to enable them to help to finance their products, including cotton; that such assistance would be a conspiracy in restraint of trade. These statements were having a very depressing effect and being used by the bear gamblers for the purpose of forcing down prices. Various leading papers carried such statements and had been carrying them from time to time. The Secretary of the Treasury strenuously denied that these statements had been given out by his authority, although, without exception, the statements bore the Washington date line and credited information as being received from the Secretary of the Treasury, David Houston.

I read to the Secretary of the Treasury, in the presence of 60 representatives representing practically every State in the Nation, the letters he had written me officially, which were in line with these statements, in which letters he stated that the policy of the Government was opposed to the exportation of American products, as it would result in increasing the indebtedness of Europe to the Government of America. I also read a letter from him in which he quoted a prominent Government official as saying that prices of agricultural products and commodities must go lower. I pointed out that the removal of the War Finance Corporation, after the producer had planted his crop with the understanding that the War Finance Corporation would function for one year after the ratification of peace, and with the further understanding that there was urgent demand for American agricultural products in Europe for the purpose of enabling them to rehabilitate and start to pay their enormous war debts, had closed the market to 66 per cent of the American cotton crop and would bring wreck and ruin to American agriculture and commerce. I pointed out to Secretary Houston at that time, and again reiterated my previous statement, that this policy of drastic artificial deflation would have the same effect that it had had in all of the records of history, that it would result in suicide, insanity, and bankruptcy, and in bringing suffering to millions of innocent people. I pointed out that we had the opportunity of world trade; that as a result of the five years of the World War sociological and economic changes which probably would not have developed in 500 years of natural evolution had taken place; that these changes would compel the acceptance of and adjustment to an elevated standard of values

as a permanent inheritance. I pointed out that the increase of our annual interest tax of $23,000,000 to approximately $1,100,000,000 or more than our total national debt before the war, while all national, State, county, and city taxation, estimated at $15,000,000,000, or about $150 to each inhabitant, would absolutely necessitate a far higher level for the prices of agricultural products; that as practically all taxation is based primarily upon and regulated by standards of values, the volume of revenue becomes dependent upon existing values; taxation derived under conditions of inflated values, yielding larger revenues than taxation under deflated values; assuming all other conditions are identical; that paradoxical as it may seem, deflated values mean increased costs of production, but deflated values mean reduced revenues, and reduced revenues mean increased taxation, and increased taxation mean added costs of production. He expressed himself, however, as determined to adhere to the policy of deflation.

All efforts to induce him to reinstate the War Finance Corporation proved unavailing. He stated that the Government would take no action that would influence, directly or indirectly, the maintenance of the then existing prices, nor would he permit the functioning of the War Finance Corporation. All efforts to gain relief, cooperation, or assistance from the Secretary of the Treasury failed, he taking the position that agricultural products should be marketed as soon as harvested; that orderly marketing meant immediate sales; that holding tended to interfere with orderly business and commerce; that the producers' business was to produce.

Regardless of every assurance that assistance was not desired for the purpose of holding for speculation, but only for the purpose of orderly marketing and harvesting, he insisted that the producers should not expect assistance for this purpose, even through existing financial machinery; that if they would harvest and sell their products they would be able to finance same without assistance.

The Secretary of the Treasury stated emphatically that prices must go lower; that we must return to prewar conditions, although earlier in the meeting he had strenuously denied that he had issued such statements. In addition to this, the Secretary of the Treasury severely criticized the efforts to help the agricultural producers, regardless of the fact that it had been explained that there was no market for agricultural products except in a limited way at far below the cost of production; that confidence had been destroyed as result of the policy enforced in Washington and that the manufacturers insisted that they would not buy unless this policy was reversed, as it meant the absolute certainty of unnecessary losses as prices would continue to drop as long as this policy was pursued; that as result of this policy a vast amount of orders which had been placed with the manufacturers were being canceled by the merchants as the confidence of the ultimate consumer in prices was absolutely destroyed and we were in the midst of a typical buyer's panic, which panic was incubated, hatched, and bred to its present proportion as result of the propaganda issued by the Secretary of the Treasury and the Federal Reserve Board and as result of the policy of artificial deflation enforced by them.

The Secretary of the Treasury insisted that the only course open was to dispose of the products, accept losses and redouble our efforts

in production with a view of recovering the losses, so incurred; that lower prices were a necessity and certainty; that inflation could not remain. I emphasized the fact over and over that the Government could in no wise take any action that would result in retarding the return of prices to lower levels. The statements made by him were again carried by the press throughout the Nation and intensified and added to the seriousness of the buyer's panic.

An effort to hold a conference with the President was declined on account of the sickness of the President. An effort to hold a conference with his Cabinet proved unavailing. Conferences were held with the Federal Reserve Board, a plea being made by a personal representative of each line of agriculture and livestock raising for a lowering of the rediscount rate and an immediate reversal of the policy of contraction of credits and currency. The plea put forth by the various representatives was indorsed by Senators and Congressmen. The condition of the agricultural producer, being without markets except in a limited way at less than one-third the cost of production, was pointed out. The gold reserve justifying additional circulation and credits was referred to. The earnings of the Federal Reserve were cited. All efforts to secure relief again failed.

After the receipt of the President's letter that he could not meet with us, we consulted with several of the United States Senators, and Congressmen, including Senator Hoke Smith, and then we went around to see the President's secretary, and asked him if we could not hold a conference with the Cabinet. It had got to such a serious stage that we thought the Cabinet would take some action. He stated that he would give us a definite answer at 5 o'clock. We went back at 5 o'clock and he said that he would let us know at 10. We were unable to get any definite answer, and we held conferences with Senators and Representatives, including Senator Dial and several other Senators, and then went to call on the Secretary of the Treasury, and asked the Secretary if he would not grant us a hearing. This was Secretary of the Treasury Houston. The Secretary of the Treasury refused to give us a hearing. I do not care to state exactly the position that he took about it. But he finally yielded and gave us a hearing. There were representatives of the farmers there, and we appeared before the Secretary, and I defy him or anyone to point out anything that was said by anybody where they did not have some distress, and conditions that needed relief.

Representative FUNK. What date was that?

Mr. WANNAMAKER. In October; between the 7th and 15th; I could not tell you exactly the date. We started in with the men from the farthest north, and the dairymen got up and told their troubles; that confidence had been destroyed and that nobody was buying anything, and they begged the Secretary of the Treasury to discontinue the statements that were being issued, and begged him to reinstate the War Finance Corporation. We had with us also a statement that had been prepared by several United States Senators and Congressmen, representatives of the American people, which had been prepared in writing. I will not read it.

We then called upon each group around the table, and the statement was made over and over again that we were encouraged to go to the expense of producing these crops, and if deflation continues and confidence is destroyed it will destroy the agriculture of the

Nation. The statement was made asking him to reinstate the War Finance Corporation, and asking him to discontinue his statements. That was asked by the representatives of the agricultural groups from practically every State in the Union.

We got around to the southern part of it, and I had clippings from newspapers to show him, and I got up and asked the Secretary specifically if he would help us to correct these reports that were in the press. I afterwards wrote to him the letter which I read to you awhile ago, and got the reply in which he stated that he was opposed to sending these supplies to Europe and maintaining these high prices here, and that it would result in subsidizing the farmers.

Representative FUNK. Who was Secretary of the Treasury then?

Mr. WANNAMAKER. D. F. Houston. When we got through with our part of the hearing, he spoke about an hour and a half an stated that it was up to the farmers, the agricultural producers, to take their part of the loss. They should market their crops as fast as they could. We asked him the question whom we should sell to and pointed out that England was taking care of its cotton producers in Egypt, and also pointed out that even Germany was taking care of its producers. But we got no assistance whatever. The committee adjourned without any help. I have a letter here that I wrote the following day begging him that he discontinue this newspaper publicity.

A committee called on the Federal Reserve Board and requested a meeting with the Federal Reserve Board.

Before going into that further, Mr. Chairman, may I call your attention to some of these other things? After returning home I wrote a letter to the President's secretary, as follows [reading]:

OCTOBER 17, 1920.

Mr. JOS. TUMULTY,
Secretary to the President, Washington, D. C.

DEAR MR. TUMULTY: It was agreat disappointment to each and every member of the agricultural conference held in Washington October 12 to 14, inclusive, representing every line of agriculture, nation-wide, that our request for a conference with the President could not be granted on account of the President's sickness and that our second request for a conference with the Cabinet officials was denied.

We have exhausted every effort in our power to secure relief from the existing conditions, not only as a matter of self-preservation and in the interest of the agricultural life of the Nation, but also in the interest of commerce and civilization. We feel fully convinced that if the President could be informed of the seriousness of these conditions he would see that the necessary relief is extended.

Agricultural products, nation-wide, can be sold only on a limited market for about one-half the cost of production. Agricultural producers of America are face to face with bankruptcy, regardless of the fact that there is no overproduction but that there is, on the other hand, a pressing demand for our products. The people of central Europe are in great distress on account of their inability to secure our raw products.

In the interest of the agricultural and commercial life, in fact in the interest of our entire Nation, it seems that it would be the duty of the Government to take the necessary steps to enable the producers to reach the markets of Europe with their products. The reestablishment of the War Finance Corporation would relieve this situation, and it is our understanding that the War Finance Corporation was created by Congress with a fund of $1,000,000,000 for the express purpose of promoting sale of our raw products into central Europe.

Having failed in our efforts to secure a conference with the President and having been denied a conference with the Cabinet officials, we wish to make the request that the President take the necessary steps to have an immediate investigation made concerning agricultural conditions, and we urge that this investigation be started with the great staple crops which enter so extensively into our commerce, commencing with cotton and wheat and thence making a complete investigation on through every line of the agricultural industry.

This investigation should be most completely and thoroughly conducted for the purpose of ascertaining and naming all causes and all persons which have or who have contributed to the destroying of markets for agricultural products which has resulted in forcing these products to be sold at about half the cost of production. This investigation should also be conducted for the purpose of ascertaining the causes for and the persons responsible for the contributions to the stagnation of commerce, nationwide. Specifically, this investigation should be conducted for the purpose of removing the causes or the persons which are or who are responsible for these conditions, so as to enable farm products to be sold upon the law of supply and demand. This investigation should show conclusively the differences between the prices paid to the producers and the prices paid by the ultimate consumers. It should also show the differences between the reduction in the prices paid to the producers and the reduction in the prices paid by the ultimate consumers.

This investigation should be conducred, first, for the purpose of bringing speedy relief to the disastrous conditions now facing the agricultural interests of the Nation.

The agricultural producers do not ask—nor do they expect—any especial consideration or privilege. If they are unable to secure relief and are forced to sell their products under existing conditions and at prices now prevailing, it seems that they will be forced to shoulder losses that will affect not alone themselves but which will be the serious detriment of the entire financial and commercial fabric of the Nation.

If our request for this investigation is granted and it is found that our contention is in error and that conditions do not warrant governmental relief along the lines indicated above, then, we do not wish that any such relief should be granted or extended and we will, as a matter of loyalty to our Government and to our Nation, cheerfully shoulder the fearful losses which are being forced upon us.

At our recent conference in Washington we insisted that only a small delegation be sent from each association, feeling convinced that this was the better course to pursue and that the desired relief could be and would be obtainea. In this we find that we were entirely mistaken.

If the investigation requested above can not be immediately granted, it is now the consensus of opinion of the representatives of all of the associations that the existing conditions are of such a serious nature that the proper course to pursue would be to call a gathering of the farmers of the entire Nation, with representatives from not only every agricultural association, nationwide, but from every agricultural county in every State of the Union, concentrating our efforts upon obtaining a large representation, and thus place our case before the Nation.

We can not believe that it is the judgment of the liberty-loving people of this great Nation that the producers of agriculture should be forced to sell their products for less than half of the cost of production. Such a policy, if continued, would not only result in commercial murder, but would, eventually, result in the commercial suicide of the entire Nation.

I urge that, after a conference with the President, you advise us definitely and positively whether or not the above request for a sweeping investigation—going into the roots of the matter for the purpose of ascertaining and naming the truth and for the purpose of preventing the calamity which is facing us—will be made without delay. We feel that a special commission should be appointed for this purpose. These matters are of far too serious a nature to permit of delay.

I beg to remain, very respectfully, yours,

PRESIDENT AMERICAN COTTON ASSOCIATION.

To that letter I received the following reply from Mr. Tumulty [reading]:

THE WHITE HOUSE,
Washington, October 23, 1920.

MY DEAR MR. WANNAMAKER: I have received your letter of October 17 and have brought it to the attention of the President.

Sincerely, yours,

JOS. TUMULTY,
Secretary to the President.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

Buyer's panic continued to grow in intensity as prices dropped to bottom.

The following report of the general committee was unanimously adopted this morning by the national convention of farm organizations meeting here, in the home of the National Board of Farm Organizations, to consider the condition of agriculture in respect to credit and market problems:

In response to the action of the convention your general committee, to whom was assigned the duty of investigating the condition of the agricultural interests of the Nation, beg leave to submit the following report:

Your committee was made up of representatives of the great staple agricultural interests of America. Each representative of these different interests gave an exhaustive statement as to marketing conditions of the product that he represented. These conditions were found to be practically similar and uniform as to the fact that the prices now current in the market are below the cost of production and that unless some immediate remedy be found to relieve the situation general bankruptcy and ruin are inevitable. The condition now facing the agricultural interests of America is not confined to any one section or any one product.

At the close of the war the world was found to have almost no reserve agricultural products. The farmers of the country were urged by every sort of propaganda to continue the utmost production as a duty to prevent untold horrors of starvation and nakedness among the nations, especially those which had been exhausted by the ravages of war. We were given to understand that no matter how great the production, we could not possibly meet the needs of consumption and supply normal reserves in a single year and that therefore we could expect prices that would well repay the high cost of equipment, materials, and labor.

We are convinced that the situation was not overstated. The world supply is unusually small. The fact that we are facing prices to-day that are below the cost of production arises out of the fact that while the Federal reserve system was found adequate to finance our allies and ourselves during the greatest upheaval the world has ever seen it is arbitrarily withheld from assisting the basic industry of this country to maintain a level of prices that at least meets the cost of production.

It is true that commodities other than farm products have been affected by the action of the Federal Reserve Board; but the conditions under which the manufacturer and the farmer produce are so different that the effect upon them is entirely different. The manufacturer produces an asset every day to meet the liabilities incurred in production while the farmer only produces an asset once every 12 months.

In our judgment it is wrong as a matter of policy artifically to press down the prices of commodities, and it is particularly wrong to begin with the raw commodities, for such a program inevitably forces upon the producer the heaviest burden of reconstruction and readjustment.

The condition of agriculture is now desperate. The condition of mind of the farm population is ominous. Producers of all crops have come to feel that the hand of the Government is against them. This state of mind can only be changed by a frank and fair attitude on the part of those in authority—the test of which can be only their acts.

After a full and free discussion of the situation the conclusion was reached that the present situation is brought about by the following official acts:

1. Restricting of credits.
2. Raising the rate of discount on farm products.
3. Discontinuance of the War Finance Corporation.
4. The statements given out by the Secretary of the Treasury, the governor of the Federal Reserve Board, and the Federal reserve banks have been construed to the effect that commodity prices, particularly prices of farm products, were too high and that a prewar basis, or an approximation of a prewar basis of prices must be reached within a short time. The consequent effect of these utterances upon the member banks of the Federal reserve system and the banking interests of the country generally was to cause them to withhold such accommodations as they might have otherwise extended, because of the fear that the security taken would necessarily decline.
5. The action of the Federal Reserve Board in counting the bonds held by member banks as part of the commercial credit of the banks holding these bonds, thereby enormously decreasing the power of such banks to extend the needed credits to the agricultural interests of their respective communities.

Your committee feels that the officials of the Treasury Department and of the Federal reserve system have exceeded their authority when they publicly announced opinions as to prices of farm products, which have resulted in disastrous price declines.

Your committee is of the opinion that the functions of these institutions as expressed in the law are to discharge the duties imposed on them by the law and spirit of the law, regardless of what effect it may or may not have upon the markets of the

country and the prices of commodities. We believe that the rate of discount should be determined, first, by the character of the paper offered for discount and, secondly, by the aggregate earnings of the Federal reserve system, and that the rate should not be used as a weapon to deflate prices or discourage proper loans and commercial transactions.

We therefore insist that the Federal reserve officers and officers of the Treasury Department shall discontinue and desist from issuing statements as to their opinions as to prices and their attitude toward the trend of commercial events.

We urge that the rate of discount for the orderly marketing of the agricultural products of this country shall be made as low as sound business will justify and that the rate on a fixed or a certain class of paper shall be uniform and such rate shall not be graduated or progressed on account of the amount of such paper discounted by a particular bank. We further urge that this rate shall not be changed during the period of the marketing of the crop then being moved and that paper accepted by a member bank and offered for rediscount shall be accepted and rediscounted at this rate during the period of the crop movement.

If the Federal reserve officers will take such action at once as will carry into effect the suggestions above made, with particular reference to a more liberal policy in extending credits for the encouragement of exports, we believe that the distrust and unrest among the farmers of the country will be greatly relieved.

We do not make these requests in any sense as a favor to be granted. We are simply requesting that the purpose and spirit of the Federal reserve act be fearlessly and impartially administered. Prices of commodities that farmers receive will be determined by the law of supply and demand if artificial and baneful advices and statements are withheld.

It is no concern of the Federal reserve system or of the Treasury Department what prices the producers of the country may determine is a fair price.

The questions for these officials to determine is what rate of interest and rediscount is justifiable under the law and to leave the question of the marketing and prices to the natural laws of commerce.

The people who consume our products are or should be vitally interested in the solution of these problems, for so long as we have a decadent agriculture we are sure to have a continuously increasing cost of living.

Respectfully submitted by—

J. J. Brown, chairman, Georgia; John A. McSparran, Pennsylvania; John Tromble, Kansas; Fred Roberts, Texas; T. R. Kilkenny, Arizona; J. S. Wannamaker, South Carolina; A. D. Fairbairn, Washington, D. C.; Clarence Sears Kates, Pennsylvania; Charles W. Holman, Wisconsin; Senator E. D. Smith, South Carolina; Frederick Shangle, New Jersey; Roy Young, Louisiana; T. C. Atkeson, West Virginia; Alva Agee, New Jersey; Charles H. Brand, Georgia, committee.

Conditions steadily grew more serious. The buyers' panic grew in intensity until finally the bottom was reached when prices fell to an average of one-fourth the cost of production, where they have since remained. Charges by the governor of the Federal Reserve Board that farmers withheld their cotton from the markets, or that they wanted credits against cotton in storage to force prices abnormally high, are not borne out by the facts. The records of the past cotton year ending July 31 show that practically as much cotton passed into the channels of trade and commerce out of the supplies of 1920–21, even with stagnated markets, embargoed exports and extremely low prices, as passed into trade channels out of the supplies of 1919–20 when demand was strongest and prices higher than for the past half century. A large proportion of the crop held by the farmers was of a low-grade type for which there has been no demand for several years, and which, during the past 12 months, could not be sold in quantity at any price.

When the buyers' panic was precipitated and fair market values were destroyed by world-wide underconsumption, the farmers expected that they would be able to secure sufficient credits through the operation of the Federal reserve banking system to enable them to finance their unsold cotton in storage at reasonable interest rates

until business was readjusted on a normal basis and the staple could be fed into the channels of demand in an orderly manner. In this they were disappointed most painfully. Through circular letters sent out by the regional reserve banks, to which your attention has already been called, the member banks were urged, almost to the point of a command, to force the liquidation of their customers' paper secured by cotton-warehouse receipts. In hundreds of instances this enforced liquidation threw cotton held by farmers upon the markets, and the staple was sacrificed at prices which meant bankruptcy or financial ruin for the owners.

The progressive and usurious rediscount interest rates were only applied and enforced by the regional reserve banks operating in the cotton belt, except the Richmond banks. The progressive rediscount interest rate only intensified the credit situation and precipitated a condition which simply annihilated the business and markets in the cotton belt. The constant call for margins by the banks to maintain the collateral security of farmers loans, caused by the continual fall in the price of cotton, caused the growers not only to put up all the cotton they held, but their life-insurance policies and mortgages on their farms. Loaded with obligations made in producing the 1920 crop at the peak of high cost, and unable to liquidate them at the low prices obtaining after the crop was harvested, the farmers found themselves in the spring of 1921 unable to obtain credits to properly carry on their farming operations for the present year. Merchants throughout the cotton belt were unable to collect obligations due them in the fall of 1920, and were consequently unable to furnish credits to farmers. The entire machinery of farming and business having to do with the agricultural industry of the South has been practically suspended, except in a very limited way, for the past 12 months. Under these conditions the farmers could not produce normal crops, however much they desired to do so. As a result of their inability to secure credits and find satisfactory markets for their cotton, the acreage has been reduced 28.4 per cent in 1921, and the smallest crop is now in prospect which has been produced in 25 years. A policy of drastic deflation in cotton production must necessarily follow for several years to enable the growers to gradually liquidate the enormous losses which they have sustained during the past 12 months as a result of the drastic artificial deflation policy of the Federal Reserve Board.

Not only are thousands of farmers now bankrupt, with the hard-earned savings of a lifetime swept away in this maelstrom of deflation, which they could neither hedge against nor stop, but hundreds have found quiet and rest only in a suicide's grave, and yet other hundreds, with minds gone and their physical bodies weakened, are to-day confined in asylums for the insane or in private sanitoriums. Among the poorer classes of the farmers, pestilence in the form of pellagra is reported to have largely increased this year in the cotton belt, the cause of which is stated by Surg. Gen. Cummings to be due to the low price of cotton and the consequent inability to purchase nourishing foods.

The cotton growers have sustained losses on the 1920 crop, as a result of artificial deflation which stagnated trade and paralyzed business to the amount of $1,250,000,000, with the additional burden of knowing that the cotton industry will for years be disorganized. To repay the enormous obligations left upon them as a heritage of the

1920 drastic artificial deflation policy of the Federal Reserve Board, it will require years of hard work, rigid economy, and liberal credits at reasonably low rates of interest.

The impression that the cotton growers were blinded by the unusually high prices during the cotton year of 1919–20, and that they were making large profits and luxuriating in suddenly acquired wealth, is completely refuted by their absolute inability to meet their obligations for producing the 1920 crop when prices were forced down below the cost of production.

The most carefully prepared statistics gathered by the United States Department of Agriculture on the cost of growing a pound of cotton in 1920, fixed the bulk line cost at 33 cents, which meant the average price for the high and low grades, as it costs just as much, or more, to produce a bale of low-grade cotton as it does to produce a bale of the highest and best grade of lint.

There seemed to have been a feeling of annoyance on the part of the members of the Federal Reserve Board when southwide petitions were presented to them for relief from the unbearable conditions imposed upon the credit facilities of the people by the regional reserve banks. We were told to go home, sell our cotton, liquidate our obligations, talk optimism, and praise those who were engineering the financial machinery of the country that had in six months swept into oblivion $8,000,000,000 worth of American farm products. The fact that such statements could emanate from members of the Federal Reserve Board showed their complete ignorance of the agricultural industry of the South, the financial condition of the farmers, or the real economic problems of the Nation.

When the farmers received the highest recorded market values for their cotton in the winter and spring of 1919–20 they got hardly more than the cost of production, and when those prices were weighted down with the wide price differences in the lower grades, it did not in any instance approximate the cost of production.

Carefully prepared statistics show that the average price received for cotton during the years preceding the war between the States was higher than the average price received for the staple since the emancipation of slavery. Both the white and colored races in the South, engaged in the production of cotton for the past 50 years have been manacled and chained to the chariot wheels of agricultural slavery. This is seen in the general poverty of the average cotton growers, black and white; their poorly-equipped homesteads, widespread illiteracy, and unattractive public highways. Just here I would like to place in the record an article I published on May 1, 1921.

A Commercial Crime.

PRESENT DISTRESSING FINANCIAL CONDITIONS, THREATENING US WITH BANKRUPTCY AND CURSING US WITH IDLENESS ARE NOT THE NATURAL AFTERMATH OF THE WORLD WAR, BUT THE RESULT OF THE ENFORCEMENT OF A POLICY OF DEFLATION, THROTTLING OF EXPORTS, RESTRICTION OF CREDITS, WHICH POLICY WAS MADE EFFECTIVE THROUGH A CONSTANT AND SYSTEMATIC PROPAGANDA THROUGH THE PRESS, CREATING A TYPICAL COMMODITY PANIC—SOME INSIDE HISTORY CONCERNING COTTON.

Eighteen months of intense commercial activity and prosperity following cessation of hostilities absolutely confirms correctness of position persistently adhered to by various representatives on the commodity side of the peace conference, which position was confirmed by delegates attending the New Orleans World Cotton Conference in 1919, that as a result of the World War America would enjoy intense commercial activity and prosperity, and that we would be taxed to the limit of our ability to

furnish sufficient raw cotton and other products to fill the pressing demands of the consuming world.

The agriculture of this Nation is not only the foundation stone of it commerce, but is more important and necessary in war and to prevent war than our armies and navies. A study of the commercial and political horizon plainly brings to light the fact that England is grasping our trade now and that the danger of war with Japan looms up as a dark cloud on the other horizon. Relief to our agriculture to-day is a great big national necessity. The farmer can not pay debts incurred in the production of his products when the dollar was worth 33 cents on a dollar now worth 100 cents; and to add to his burdens he is without markets and without credits. The World War should bring to the public mind as nothing else could have done the fact that cotton is really golden, and that its golden values are so interwoven with the solidarity of mankind as to depend to a peculiar degree for their stability on the maintenance of an unbroken network of international trade. America produces 62 per cent of the cotton crop of the world. The United States, in addition to its large manufacture of cotton goods, exports raw cotton annually in a sum exceeding in value its next three greatest export groups put together. It exceeds the amounts for iron and steel manufactures, meat and dairy products, and breadstuffs combined, these three groups ranking next in importance among articles exported. Cotton maintains an annual balance of trade in favor of the United States on the pages of the world's ledgers by attracting a stream of European gold westward each autumn and setting in motion the current of liquidation necessary to sustain national credit. It is the only crop of importance all of which is sold by those who produce it. Only 17 per cent of the corn crop, for instance, leaves the farms; the rest is consumed or fed to stock by those who produce it. Cotton, therefore, generates an enormous commerce and provides a medium of exchange that almost entirely takes the place of gold in the settlement of interstate and international balances. Cotton properly warehoused is imperishable and should always be convertible, and possesses more of the attributes of a legal tender than anything produced by human labor except gold. It exceeds in value the whole world's annual output of the precious metals by 50 per cent. It is the world's golden fleece; the nations are bound together in its globe-engirdling web.

NATIONS WORRIED ABOUT COTTON SUPPLY.

Representatives on the commodity side of the peace conference were unanimously agreed that there was no product which would be more affected by the World War, and by conditions growing out of it, than cotton. A matter of vital concern with these representatives was whence would the world secure a sufficient quantity of cotton, copper, and wheat. During the various sessions of this conference efforts were made time and time again to devise plans for the allocation of these products, especially cotton.

WORLD SPINNING TRADE WILL REQUIRE ANNUALLY ABOVE 30,000,000 BALES.

The position of the representatives at the peace conference was confirmed by delegates attending the World Cotton Conference held in the fall of 1919 at New Orleans. At the peace conference and the World Cotton Conference it was agreed that nine-tenths of the clothing worn by the inhabitants of the world was made of cotton and that out of the world's population of 1,800,000,000 only 500,000,000 were completely clothed, 750,000,000 only partially clothed, and 550,000,000 without clothing of any description; that there would be an enormous increased demand for raw cotton to supply the increased use of cotton clothing, which was an absolute certainty; that to provide clothing for the human race it would require 50,000,000 bales of cotton or 15½ pounds for every human being each year. It was clearly conceded that the world's consumption of cotton had been approximately 23,000,000 bales annually, and that of this during the last decade the American cotton crop averaged about 13,000,000 bales annually. It was predicted that there would be an enormous increased demand for cotton as a result of the changed conditions growing out of the World War; that this increased demand would show a steady increase in amount; that it would only be a few years' time before the world's spinning trade would require annually above 30,000,000 bales of cotton; that the supply of cotton goods had been steadily wearing out for five years and that the world must not only be reclothed but the additional demand for clothing must be filled; that it would be necessary to show a steady increase in the erection of factories for the purpose of manufacturing cotton goods to supply this demand. More as well as better cotton, it was conceded at the peace conference and confirmed at the World Cotton Conference, was one of the world's greatest prospective needs; that no matter what the carry-over or consump-

tion might be, manufacture is sure to expand, both as a normal development, which was bound to be greatly stimulated following the World War, and also because of the world's dearth of garments; that in the modern scheme of civilization cotton was second only to food, and its production, manufacture and distribution were world matters.

So thoroughly were the representatives on the commodity side of the peace conference convinced that this statement was correct that effort after effort was made by the representatives from the various manufacturing countries to have plans adopted that would result in securing for their countries the certainty of obtaining a fair proportionate part of the avilable supplies of raw cotton for several years to come. A statement was made at the peace conference and confirmed at the World Cotton Conference that the various lines of the cotton industry represented one of the greatest industries of the world, it being shown that the estimated value of capital invested in world cotton production in 1914 was as follows:

Estimated value of capital invested in world cotton production.

	Acres, 1914.	Average value per acre.	Value of land and buildings.
United States	36,800,000	$66	$2,428,000,000
India	24,596,000	80	1,968,000,000
Egypt	1,822,000	600	1,093,000,000
Other	7,000,000	60	420,000,000
Gins, compresses, machinery, etc			200,000,000
	70,218,000		6,109,000,000

It was shown that the estimated capital invested in the cotton mills of the world was about as follows:

United States	$1,500,000,000
United Kingdom	2,100,000,000
Continent of Europe	1,850,000,000
India	280,000,000
Japan	130,000,000
Others	200,000,000
	6,060,000,000

It was further shown that the estimated capital invested in all branches of the cotton industry of the world was about as follows:

Cotton lands, including buildings and farm machinery	$6,109,000,000
Factories (estimate based upon a world average of $40 per spindle)	6,060,000,000
Invested in the manufactured products (one-half of year's output)	8,000,000,000
Cottonseed oil industry and output, estimated	1,000,000,000
Dyeing, finishing, mercerization, and knit goods	500,000,000
Total	21,669,000,000

It was also fully agreed that the 6,000,000 persons employed in the production, manufacture, and distribution of the finished product represent 30,000,000 mouths to feed; the land on which it grows is worth about $6,000,000,000; the factories which turn it into cloth another $6,000,000,000; the finished product which they turn out in a year is worth $15,000,000,000 at the door of the factory, and the capital invested in the growth, manufacture, and distribution of the world crop and its product aggregates approximately $20,000,000,000.

WORLD BACKWARD IN USE OF COTTON.

It was the consensus of opinion expressed as a result of research by experts both at the peace conference and the World Cotton Conference that viewing the cotton industry and its future requirements we were brought face to face immediately with the fact that nearly two-thirds of the world's population was as yet in its infancy in the extensive use of cotton goods, although the use of cotton in the more backward countries was on the constant increase.

Both at the peace conference and the World Cotton Conference it was conceded that to supply the increased wants for cotton goods it would be necessary to enor-

mously increase the investment in all lines from the production end on through to the finished product, so that it would only be a matter of a few years until this vast amount of invested capital would show an enormous increase. It was urged at the World Cotton Conference in confirmation of the above belief that the world would be in pressing need of 15.000.000 bales from the American crop of 1920 and that acreage reduction under these conditions would be little short of criminal. Representatives on the commodity side of the peace conference, representing not only America but other cotton-consuming countries, give it as their judgment that had it not been for the removal of the War Finance Corporation, thus removing the machinery whereby Europe could secure cotton, American short-staple cotton would have sold conservatively at $1 per pound, and that there would not have been a sufficient supply of cotton for the wants of the world; that the dertainty of a great shortage in cotton has been changed to an enormous surplus entirely on account of the inability of the cotton world to obtain cotton.

NATIONAL OFFICIALS PROMISED TO KEEP WAR FINANCE CORPORATION, THEN KILLED IT.

It was only as a result of concentrated efforts of those urging and advocating a 15,000,000-bale crop in 1920 that the acreage reduction campaign was not put into effect. The American Cotton Association representing the cotton producers of the South, as a precautionary measure before abandoning the proposition of cotton acreage reduction, laid the matter before the national officials at Washington, and it was only after being assured that the War Finance Corporation would be permitted to function that the acreage production campaign was not put into force. We were informed that the War Finance Corporation was formed after the signing of the armistice for specific purpose of financing exports of American products to Europe; that under the law it would function actively and continuously until one year after the ratification of peace. It was realized that it would be absolutely necessary and not only the duty of, but a matter of good business judgment for, the United States to arrange for Europe to secure American products for the purpose of enabling her to rehabilitate and repay her enormous war debts; that it was only through furnishing Europe with the opportunity to become busy that the purpose for which the World War was fought, to make the world safe for democracy, could be secured. The South planted a full acreage. Between the time of planting and harvesting the War Finance Corporation was removed, credits restricted, and the deflation policy put into operation. As a result to-day the cotton industry of not only the South but of the world is facing a very, very crucial period. The fact that there was an enormous demand for al products, especially cotton and great activity in all lines of business, following the peace conference and the World Cotton Conference would seem to have confirmed the judgment formed at the peace conference and the World Cotton Conference. Why this great change since that time?

America enjoyed great prosperity and business activity continuously for over a year and a half after the signing of the armistice, which absolutely confirms the judgment formed at the peace conference and the World Cotton Conference. Present conditions were entirely brought about by the adoption of certain policies in inner high financial circles in England and America, and these conditions are not the result of the World War, except that the World War afforded the opportunity for the enforcement of these policies. All of this has brought fabulous losses to the many and great wealth to the few. If these policies are chargeable to bungling, we should hate bungling as we do sin, but especially bungling on the part of our officials, which leads to misery and ruin to many thousands and millions of people.

THE FARMER CRUSHED BETWEEN THE UPPER AND NETHER MILL STONE—HIGH PRICES FOR HIS PURCHASES AND LOW PRICES FOR HIS SALES.

The difference in the price of agricultural products, including live stock, since last July compared with present prices is around eight billions of dollars. This loss which must fall upon the farmers of the Nation staggers the imagination. The farmer is forced to pay 75 per cent to 100 per cent more for what he buys than he can get for what he sells. Unless he receives a price of 75 per cent to 100 per cent advance over prewar prices he is doomed to financial destruction. This statement was recently confirmed by the Secretary of the United States Department of Agriculture.

Who has received the benefit of this vast sum, the loss that will be forced upon agricultural producer by the decline in the price of his products as a result of these policies?

EXPORTED COTTON ON CREDIT WOULD HAVE SAVED THE SITUATION—CONTRAST.

For cotton exported in the year 1919, in which year we exported 6,598,347 bales, we received $1,136,500,000. If we export the same amount this year, we will receive at present prices only $329,917,350. This alone will show to the farmers of this Nation a loss of $806,582,630, and, of course, bring to foreign countries that amount of gain. To raise the same amount of money this year as was received for exports of cotton in 1919, it will be necessary to export 22,730,000 bales instead of 6,598,347 bales. In other words, in actual bales of cotton the foreign countries will gain as a free gift at present prices; 16,131,653 bales. It would have been a splendid investment to have complied with the persistent and written request of the American Cotton Association and permitted enough cotton to have been sold through the War Finance Corporation on long-time credits to Europe to have kept her busy, even though we would have been forced to lose 50 per cent of the money for the sales, which loss would have been impossible. If we had sold to Europe 10,000,000 bales for prices prevailing in 1919, and Europe would have readily and gladly bought at that price, and far higher prices, an amount in excess of 10,000,000 bales, if credits had been arranged as outlined above, it would have brought to America two billions of dollars. Then, if we had lost one-half, it would have netted to the farmers of America $1,000,000,000. This would have still shown, based upon present prices, a net gain of $500,000,000.

This does not take into consideration the enormous indirect returns. Had these sales been made, the present unrest would have never existed in Europe. Europe would be far on the road to rehabilitation. American commerce and business would be enjoying intense activity instead of stagnation. Agriculture would be enjoying prosperity instead of paralysis and being threatened with death. Cotton, the life and heart of credit, would have thus stimulated every line of industry and promoted peace and prosperity. Factories would be humming instead of idle. There would be an active demand at profitable prices for every bale of cotton; in fact, it would be necessary to increase cotton acreage to supply the pressing demands of the world. instead of decreasing cotton production so as to permit the producer to exist.

DISASTER FOLLOWS DEATH OF WAR FINANCE BODY.

Although through national governmental sources the farmers of the Nation had been urged to increase production, it being pointed out thatt here would be a great demand for all products subject to exportation, and that it would be necessary to assist Europe to secure these products, thus enabling these countries to rehabilitate and commence to pay their enormous war debts. Still regardless of this, the Secretary of the Treasury, who had formerly been the Secretary of Agriculture, and advised increased production in a written statement in the spring of 1920, took the position over his official signature as Secretary of the Treasury that he was opposed to the exportation of American products to Europe either by governmental sources or through voluntary means, as it would result in maintaining the high prices for agricultural products in America and subsidize the American farmer. Realizing the vital necessity of exports, through concentrated efforts and at the heavy expenditure of finances, a sale of 300,000 bales of low-grade cotton at a price of 40 cents, strict-low-middling, f. o. b. cars at southern shipping points, was made by the American Cotton Association. After all details had been completed for the sale of this cotton to European countries, the War Finance Corporation, through which source this cotton was to have been financed, was removed by order of the Secretary of the Treasury. A persistent and unceasing campaign of propaganda was kept up from Washington, which resulted in a typical commodity panic. Cheap products from the Orient, where labor is secured at 25 cents per week, flooded America. We see the final results of all of this to-day.

PREDICTION AS TO EFFECT OF REMOVAL OF WAR FINANCE CORPORATION VERIFIED.

The wisdom of the establishment of the War Finance Corporation by Congress and the justice of the protest against its abandonment made by the American Cotton Association in its campaign and other campaigns for the reestablishment of the War Finance Corporation, is startlingly illustrated to-day. The prediction made by the president of the American Cotton Association before the Secretary of the Treasury in a public hearing in the summer of 1920 that the removal of the War Finance Corporation, the propaganda being issued against prices of agricultural products and the deflation policy and restrictions of credits, if continued, would result in wrecking the agriculture of the Nation and shouldering it with debts which it would require

unborn generations to pay, has become strikingly verified. "The agricultural producer," he stated, "could not pay a debt incurred for the production of his crops on a 33⅓ dollar if the dollar was deflated to 100 per cent before these crops could be marketed." This prediction is verified nation-wide to-day.

UNITED STATES DEPARTMENT OF AGRICULTURE GIVES COST OF COTTON.

The United States Department of Agriculture has just issued its statement on cost of production of cotton for the year 1920, showing a bulk line cost of 33 cents per pound, all grades, which, based upon the differentials, makes the cost approximately 43 cents per pound, basis middling. Cotton can only be sold in a limited way at less than one-third the cost of production. An enormous surplus has been accumulated. Cotton producers are unable to market their cotton now on hand; unable to secure credits of either money or goods with which to produce the coming crop. Unless relief to these conditions becomes effective, America is destined to lose her monopoly of the production of cotton, of which she produces 62 per cent. You can not destroy the source of production and yet continue to receive the product.

As a matter of self-preservation the cotton producer, realizing that his very existence is at stake, is using the only instrument at his command, restriction of production, and the world is facing the absolute certainty of one-half cotton crop for 1921, regardless of seasons. The judgment of those attending the peace conference and those attending the world cotton conference was correct concerning the needs of the world for a vast increase in cotton production. However, the apparent certainty of a cotton famine at that time has been changed into the enormous surplus now on hand, necessitating restriction of production on account of restrictions of exports, the commodity panic, the result of a propaganda against prices, the deflation policy, extending over a period of a few months, which should have covered a period of from 8 to 10 years. As a final result of all of this the world is facing the certainty of a famine in supplies through a great shortage of production. The consumer in the end will pay a fearful penalty. Famine supplies will bring a great scarcity and cause record-breaking high prices.

BOLL WEEVIL A BLESSING.

The cotton-consuming world views with alarm the ravages of the boll weevil, realizing that his destruction is a calamity, as it diminishes the production of cotton and adds to the cost of same. The cotton producer and allied business interests view the ravages of the boll weevil as a blessing in disguise, being fully convinced through actual experience that the cost of producing cotton is given practically no consideration in naming the price which is to be paid for the product; that cotton, a world necessity, of which the South has held the monopoly for over a half century, has never been accorded its just place in the commerce of the Nation as one of the greatest assets of America; that were cotton accorded its correct place in the commerce of the Nation and recognized as one of the greatest national assets, as one ot the most valuable assets that enters into commerce, and a world necessity, it would have brought not only far greater benefits to the South, but eventually greater benefits to the Nation and the world at large. It would have added to the wealth of the South instead of to its poverty; it would have brought many times over the balance of trade to America that it has. The use of cotton, had it been handled as a great national asset, would have been vastly increased. Thus the entire South, the entire Nation, and mankind at large would have a received far greater blessings from this world necessity, the foundation stone of commerce, the promoter of civilization, and the commercial prince of peace.

UNDERPRODUCTION COMING.

Vast sums have been spent in scientific research for the purpose of combating the inroads of the boll weevil; the concentrated thought of the laymen and scientific men have been centered upon means and methods for its destruction—all to no avail. The pink boll worm, far more destructive than the boll weevil, for it is being conceded by scientific men that its spread would mean the entire destruction of the cotton-producing industry, as there is no known scientific method with which to combat it, is viewed with great alarm. When cotton is accorded the place in the commerce of the Nation and the world which it richly deserves, the consumption of cotton, as stated at the peace conference and confirmed at the World Cotton Conference, will be vastly increased. The serious question will not be an overproduction of cotton, but a sufficient production to fill the pressing demands of the world. When cotton is accorded this place, the question of the eradication of the boll weevil, the pink boll worm and other cotton pests will be solved by science. "Necessity is

the mother of invention." Through necessity many of the greatest scientific discoveries have been unearthed. Coconuts fell for a thousand years, thumping the heads of men, but not until a few centuries ago was the law of gravitation discovered by Newton. Steam had rattled the lids of teakettles and boiling pots since the age when man began, but not until a short time ago did Watt discover the power of steam. Just as the secret of electricity was stolen from the sky with a key, just as Burbank found a golden thread of natural law leading from the weed to the flower, just as Marconi discovered that a strata of air would carry an electrically driven message from a lighthouse off the coast of Newfoundland to the Tower of Pisa—so will we one day find the secret for the eradication of the boll weevil and the pink boll worm. This secret will not be discovered until the necessity arises.

NATURAL LAWS BEAT WEEVIL.

As a result of years of investigation for the purpose of discovering scientific methods and means for the eradication of the boll weevil, a recent investigation, which is guarded with profound care, brings to light the fact that nature has probably provided a means whereby the eradication of the boll weevil will probably become a certainty. By adopting certain methods, natural laws can be used which will result in destroying the eggs and grubs of the boll weevil, thus not only preventing its damage, but practically annihilating the pest. It will require time to thoroughly test this discovery and to perfect same. Men who are intensely interested in and devoted to the upbuilding of not only the South but the Nation at large, who are conducting this investigation and who have stumbled upon this natural law, concede that the operation of same, were it to bring the results indicated, would result in a curse to the cotton producers and allied business interests of the South instead of a blessing, as the only way through which the South has ever obtained even a small remuneration for the production of cotton has been through a limited production, and that had it not been for the inroads of the boll weevil the price of cotton since the first appearance of the boll weevil in the cotton belt would have been ever lower than the starvation prices paid to the producer for cotton.

NEVER AN OVERPRODUCTION—AN UNDERCONSUMPTION THROUGH NARROW BUSINESS JUDGMENT.

There has never been an overproduction of cotton; there has been an underconsumption. The wants of the world for cotton goods have never been supplied. Restriction of markets has throttled consumption. The price paid for cotton has been based upon slave labor, and the place accorded it in the commerce of the Nation has been based upon prejudiced judgment. It has been considered as a sectional product, and never accorded a just place in the commerce of the Nation as the greatest asset of America. Following the War between the States, which war was indirectly caused by the production of cotton in America, when the shackles were removed from the black slave, they were immediately refastened upon himself, his master, his industry; and the curse of Cain was placed upon cotton production, and as a result, instead of bringing blessings to the section which produces it, to the section which controls an absolute monopoly of the cotton production of the world, producing 62 per cent of the cotton in the world, producing a quality and staple of cotton which has no competition in the world, it has proved a curse—it has brought illiteracy and poverty.

OTHER INDUSTRIES AIDED.

The English Government has continuously fostered their own exports through a regular governmental board since 1914. This board is still actively functioning. It encourages and finances exports. The British Government protects the exporter in all losses up to 75 per cent of said loss. It is in this way that a vast amount of American commerce has been secured by England. The Egyptian Government is also purchasing outright from all producers who wish to sell as much as 100 bales at a price of from 23 cents for the lowest grade up to 39 cents for the best grades. The Government is also making loans to the small growers of funds to produce this year's crop.

The railroads of America were subsidized by the National Government for a vast amount. Transportation charges were enormously increased by the National Government, this increase, of course, falling upon the farmers of the Nation.

The sugar grower of Cuba has been assisted and protected with a vast amount of finances through governmental sources and otherwise from America. The Brazilian coffee grower is being protected by his Government. What protection has the Southern cotton producer or the American farmer received up to the present time?

The first ray of hope has come to him recently through the activities of the War Finance Corporation and other governmental sources, the War Fiannce Corporation having been revived as a result of a strenuous fight on the part of the producers and friendly interests continuously conducted since its removal.

WAR FINANCE BOARD BACK.

The reestablishment of the War Finance Corporation was directly the result of the work of the American Cotton Association. The American Cotton Association protested against the removal of said corporation immediately upon its removal and waged an unceasing and continuous fight for its reestablishment until it was finally reestablished over the veto of the President. This campaign attracted nation-wide attention, and the success of same was due to the cooperation of associations, organizations, leaders of business, officials, and Congressmen and Senators nation-wide, who recognized the vital necessity to the commerce and agriculture of the Nation to have the War Finance Corporation actively functioning as required under the law establishing it.

Sir Charles Macara, the great English cotton authority, the man who received his title on account of the part he played in bringing vast wealth to England through his manipulation of the price paid to the American cotton producer for his production, has advocated a plan for buying up the surplus of cotton while cotton was without a market and while the American producer is helpless. Did he advocate this plan for the purpose of benefiting the American cotton producer, or did he advocate it for the purpose of increasing the wealth of England as he has in the past? Would not this surplus be stored and used for the purpose of depressing prices? Would not this plan if made effective be equivalent to stabbing a corpse, or taking advantage of the producer on his deathbed?

BRITISH COTTON CROPS.

A vast amount of propaganda has been recently given publicity through English sources concerning the increased production of cotton under the British Government. Has this propaganda been put out for the purpose of frightening the American producer, inducing him to increase his production and continue to commit commercial suicide? Is it unreasonable to ask to expect that following the World War cotton will at last be permitted to be accorded the place in the new commerce of the Nation which it richly merits, that of the greatest national asset of America; that America will concentrate its efforts for the purpose of opening the markets of the world for American cotton, for the purpose of supplying the necessities and comforts of making world-wide, promoting a league of peace through commerce, bringing prosperity and contentment, securing for the South the wealth which is richly hers through the God-given monopoly of a world necessity, and bringing to America wealth and the balance of trade which will make of her the world's banker? If this is permitted, then, for the first time, the great law of demand will awaken the law of necessity, and the boll weevil will cease to annually destroy millions of dollars worth of cotton that would add to the blessings of mankind and increase the wealth of this Nation. The pink boll worm would cease to menace the cotton-producing industry.

COTTON DISASTER NATIONAL.

If the cotton producers are forced to sacrifice their cotton under prevailing prices, which are less than one-third the cost of production, not only the cotton producers of the South but every line of the cotton industry and the commerce of this Nation will receive a shock from which it will require years to recover, and one of the greatest industries of the world, the cotton industry in every line, will receive a blow which may bring wreck and ruin nationwide and worldwide.

SYMPATHETIC ATTITUDE OF NATIONAL OFFICIALS—HOPEFUL CONFERENCES.

Upon invitation the national officials of the American Cotton Association recently held conferences with President Harding, Secretary of Commerce Hoover, Eugene Meyer, jr., chairman of the War Finance Corporation, and other national officials. In these conferences carefully prepared written statements were furnished by the American Cotton Association and full explanation given showing the fearful condition of the agriculture of the Nation, especially cotton, due to the lack of exports, restriction of credits and the propaganda against prices; that the producer was without markets, without credits, unable to market his crops on hand, unable to secure credits for the

production of new crops. The vital necessity of actively reviving the War Finance Corporation, opening up foreign exports, financing the sale of agricultural products on long time terms, more liberal extensions of credits, lower discount rates, was urged in the strongest terms.

These conferences were highly satisfactory. We were assured of the closest cooperation on the part of the national officials. They are now fully awake to, in full sympathy with, and realize the vital necessity of extending this relief, realizing that only through such relief the agriculture and commerce of the Nation can be saved from paying even a more fearful penalty; that it is only through these means that commerce can be revived, agriculture relieved and confidence restored.

A CONFERENCE IN MAY.

The American Cotton Association has called a conference to be held at Hotel Pennsylvania, New York City, May 30 and 31, of representatives from all lines of the cotton industry, leaders in the commercial world, and National Government officials, for the purpose of discussing, reviving and putting into effect plans that will result in relieving present conditions which have claimed and are claiming such a fearful toll from the agriculture and commerce of the Nation.

The prime object of this convention will be to accord to cotton the place to which it is justly entitled in the commerce of the Nation—as the greatest national asset of America, instead of a sectional product. This conference has the full indorsement of the national officials in Washington; also of men who stand at the head of the business and commerce of the Nation. Among the speakers are National Government officials and the most prominent men of the country. This conference will be very largely attended, not only from every section of the South, but from various sections of the Nation. The American delegates to the World Cotton Conference will attend same before sailing on the *Adriatic* for Liverpool and Manchester. The full approval of and the assurances of the closest cooperation already received bring clearly to light the vital necessity of this conference, and prove beyond question that the result of same will be highly beneficial.

THE PLACE OF COTTON.

Has not the time at last arrived when this Nation should realize that it is a great big national necessity, a world necessity, that the science of destruction should bend before the arts of peace; when the genius which multiplies our powers, which creates new products, which diffuses comfort and happiness among the great mass of the people, should occupy in the general estimation of mankind that rank which reason and common sense now assign to it?

J. S. WANNAMAKER,
President American Cotton Association.

On the 30th and 31st of May, 1921, a joint conference of the various lines of the cotton industry was held in New York City. This conference was held for the purpose of bringing about a closer spirit of cooperation between the various lines of the cotton industry, this being vitally necessary at this time to protect the cotton producing industry which has been so fearfully affected as the result of these abnormal conditions and which industry is absolutely necessary to the commerce of the Nation.

The conference was held for the further specific purpose of making an effort to have cotton recognized as a national asset and not as a sectional asset. I delivered an address at this conference, outlining the cotton-producing industry in full and in detail, which address I would ask to insert here, as follows:

THE NATIONALIZING OF THE AMERICAN COTTON ASSOCIATION.

Address by Hon. J. S. Wannamaker, president American Cotton Association, before the National Cotton Consultation Conference Auditorium—Hotel Pennsylvania, New York City, May 30, 1921.]

COTTON IS THE LEADING PRODUCT IN AMERICAN COMMERCE AND INTERNATIONAL TRADE, THE NATION'S GREATEST SINGLE MONETARY ASSET—BY NATIONALIZING THE AMERICAN COTTON CROP WE CAN CREATE A GREATER NATION THROUGH A GREATER SOUTH—THE DAY HAS ARRIVED WHEN IT IS ABSOLUTELY NECESSARY TO NATIONALIZE THE AMERICAN COTTON CROP BOTH FOR PROTECTION OF THE SOUTH AND NATION AT LARGE—TO CONTINUE TO TREAT COTTON AS A SECTIONAL PRODUCT INSTEAD OF OUR GREATEST NATIONAL PRODUCT MEANS AMERICA WILL LOSE CONTROL OF THE LEADING PRODUCT IN HER COMMERCE AND INTERNATIONAL TRADE AND AS A RESULT BOTH OUR COMMERCE AND CIVILIZATION WILL PAY A FEARFUL PENALTY.

My address should fittingly open with the following Biblical quotation: "And He shall judge among the nations and shall rebuke many people; and they shall beat their swords into plowshares and their spears into pruning hooks; nation shall not lift up swords against nation, neither shall they learn war any more. But they shall sit every man under his vine and under his fig tree, and none shall make them afraid, for the mouth of the Lord has spoken it."

Agriculture is the only avocation ordained by nature for man in the early dawn of human civilization. Later came barter, commerce, industry, and finance in the form of artificial avocations to meet the progressive needs of humanity. But to-day every artificial department of human life is as vitally dependent upon agriculture as in the centuries which have passed and gone. No country, no matter how powerful or rich in commerce and finance, can expand and remain independently progressive without controlling within its grasp the primary wealth produced by the tillers of the soil. That country which relies upon other nations for its raw products in the form of agricultural supples is a dependency upon peaceful international relations.

Not only does the world's population depend upon agriculture for food and raiment, but the maintenance of a strong and virile race depends upon a constant mingling of the blood of our country youth with the innovating blood of our centers of congested populations in town and city. The loss of agriculture to America would mean a wrecking of its commerce, transportation, and finance.

PRODUCTION OF RAW MATERIAL IN THE SOUTH.

America produces more raw material than any country in the world; among other products producing (with only 6 per cent of the world's population and 7 per cent of the land), 20 per cent of the world's gold, 40 per cent of the world's iron and steel, 25 per cent of the world's wheat, 40 per cent of the world's lead, 40 per cent of the world's silver, 50 per cent of the world's zinc, 60 per cent of the world's oil, 70 per cent of the world's corn, 85 per cent of the world's automobiles, and 60 per cent of the world's cotton.

PRODUCTION OF RAW MATERIAL IN AMERICA AND IN THE SOUTH.

Special attention should be given to the production of the South. The South certainly can not be classed as a slacker in the matter of production. While it has about a third of the population of the country, it produces 36 per cent of the entire corn crop of the United States, 99 per cent of the rice, 99 per cent of the sweet potatoes, 30 per cent of the apples, 40 per cent of the peach crop, 29 per cent of the milk cows, 38 per cent of the total number of cattle, and 39 per cent of the total number of swine of the country. It produced last year 26 per cent of the entire output of butter, 45 per cent of the production of chickens and other fowls, and 38 per cent of the output of eggs. Last year it produced the entire sugar-cane crop of the country, or 625,500,000 pounds of cane sugar, which was 25 per cent of the total sugar produced, including beet sugar, in the United States, to which should be added the entire molasses production of the entire country.

The South produces 62 per cent of the cotton crop of the world and has a monopoly of the spinnable cotton of the world. It has a virtual monopoly of the output of cottonseed oil, producing about 1,400,000,000 pounds per year, or about as much as the total production of butter on the farms and in the creameries of the whole couutry for the year 1919. The best authorities estimate that the intrinsic value of the cotton seed production in the South, for man and beast, averages $350,000,000 per year.

The South has 88,000 square miles of coal fields, with iron ore sufficient to supply for years the entire trade of Europe. It is able to produce foodstuffs for a hundred

million people and is able to do more manufacturing than the whole country is doing to-day.

The great fight for the future will be trade. We must have foreign markets in order to get a fair price for our products, at home and abroad.

STUPENDOUS INVESTMENT IN AGRICULTURE.

The investment in American agriculture amounts to about $8,000,000,000. It is the greatest asset of the Nation. If the farmers of the United States should decide to go into another business—if they should sell all of their live stock and crops for just one year, they would have enough to buy all of the railroads of the nation, with all of the rolling stock and other equipment. If they were to also sell all of their lands along with the live stock and crops, they could buy all of the railroads, all of the manufacturing establishments now on record, all of the mines and all of the quarries. It would indeed be about on even trade between the farm property and all other productive property in the United States, except the purely mercantile establishments.

The total value of the farm products of the United States in 1919, according to the figures of the United States Department of Agriculture, amounted to $16,035,111,000.

American agriculture has made the United States the most powerful and independent nation in the world. Its loss would soon render this country one of the weakest Republics on earth. This is not true of any other industry or avocation pursued by the American people, because all others are artificial and not imperatively necessary to the existence of mankind.

It must be concluded, therefore, that agriculture is the foundation upon which our national structure has been built and expanded, and upon its maintenance depends the progress of our civilization for the future.

THE WORLD'S NEED FOR COTTON.

The export of American cotton to foreign countries in 1914 amounted to practically 9,000,000 bales, about one and a half million bales less than the total export for 1912. On the basis of the 1914 exports, there has been a lossage of underconsumption of American raw cotton (due to the World War) of 28,644,394 bales from 1915 to 1920, inclusive. If the spindles of the world could have continued in active operation during the past six years, every bale of surplus production in those years would have been consumed, leaving an unsatisfied demand for many millions of bales which were not produced.

It is clear, therefore, that but for the European War and the stoppage of many millions of foreign spindles the world would have faced an intense cotton famine before the close of 1920.

In the face of these facts there yet remain throughout the world hundreds of millions of human beings who are only partly clothed or who wear no clothing at all. The need of the world, therefore, for cotton fabrics is to-day far in excess of the ability of the present spindles and looms, even under full operating capacity in peaceful times. The difficulty at present is found in underconsumption and not in overproduction

The problem of the future, when full international trading activities have been reestablished, will be to supply the rapidly increasing demand for the American staple. In this period of temporary stagnation in the industry there could be found no better opportunity for national cooperaton in bringing about a readjustment of the wasteful practices heretofore employed in the handling and marketing of the American cotton crop. A correct solution of this economic problem is as vital to the manufacturers and consumers of American cotton as it is to the future welfare and progress of the cotton growers.

WHEN FOREIGN MERKETS ARE OPENED, THE QUESTION OF SUFFICIENT SUPPLIES OF RAW PRODUCTS—INCLUDING COTTON—WILL BE A SERIOUS PROBLEM.

What this country is suffering from most is the need of foreign markets. America has always suffered on account of the lack of foreign markets, and she now has the opportunity to secure markets as broad as the world. The crying need of the world for production has never been supplied, even during the period when we have produced the largest crops and carried the largest surplus there would have been far more than sufficient demand, at profitable prices for cotton goods, to consume every pound of cotton had it not been for the restraints and restrictions on trade. Even to-day the statisticians show, while nine-tenths of the clothing worn by the world is made of cotton, with 1,800,000,000 people in the world, only 500,000,000 are completely

clothed, 750,000,000 partially clothed, and 550,000,000 without any clothing of any description.

To provide clothing for the world, it is calculated that 55,000,000 bales of cotton, or 15½ pounds of cotton for every human being would be required each year. The world's consumption of cotton, under conditions which have been existing, has been approximately 23,000,000 of bales annually, and of this amount, during the last decade, the American cotton crop has averaged 13,000,000 bales.

This increased demand, it is conceded, will be permanent, going forward by leaps and bonds, necessitating the installation of numerous increased spindles and looms and an increase in the production of raw cotton: that the requirements of the people of the world for clothing will show an annual consumption of around 35,000,000 of bales of cotton within the next decade.

THE AMERICAN COTTON CROP.

Raw cotton stands second to food as an agricultural necessity in the needs of human civilization throughout the world. In this respect the United States occupies a unique position amoung the other nations of the earth, because it controls a natural monopoly of cotton production. The primary wealth produced in each crop of American cotton is the richest natural heritage of this Nation. The stream of actual gold which flows into the channels of our domestic commerce and financial institutions from the sale of raw cotton far exceeds that of any other industry in the Nation. Its exports not only maintain the balance of trade in favor of the United States but it represents the chief financial resource upon which one-third of this Nation's population depends, and the successful operations of billions of dollars of industry in other sections of the Union. Raw cotton is the greatest monetary asset of the Nation, although its production is confined largely to the soils of only 10 States.

Unfortunately, cotton has been largely regarded as a sectional product, without due recognition of its real intrinsic value to the whole nation. Without strong and forceful national cooperation, cotton production in the Southern States has not responded to that type of efficiency which has so distinctively marked the progressive development of other lines of industry in the Nation. The low prices for which the cotton farmers have been forced to sell the staple within the past half century has tended to lower the scale of agricultural development in the cotton States and has driven the once independent landlords from the farms to the towns and the cities. This has vastly increased tenantry and has lowered the standard of scientific production.

WOMEN WORKING ON THE FARMS.

The United States census of 1910 shows the total number of women engaged in agriculture in the United States to be 1,807,472. Of these, 1,535,329 (or 84.94 per cent of the total) were in the 11 cotton States. In the State of Iowa only a little over 9,000 women were scheduled as engaged in agriculture by the 1910 census, while Texas had 184,000, and Mississippi, Alabama, and Georgia had more than 200,000 each.

Practically 60 per cent of the cotton crop is produced by tenants or undirected share croppers, which is seriously lowering the morale of southern agriculture. The production of cotton per tenant, whose family consists of a minimum of five members (a man, his wife, and three children), is so small in aggregate value and so heavy in actual expense as to render such farmers the poorest-paid laborers in the United States. He is only able to eke out an existence by denying to himself and to his family everything except the bare necessities of life, he, his wife, and his children toiling in the fields from sunrise to sunset. This condition is being reflected in a gradual decadence of a once strong and progressive rural life. Infertile soils, poor public highways, limited schooling facilities, and degenerated homes is the price being paid for the continued production of cotton on a comparative basis of slave labor.

It is the Nation's business to so aid and safeguard the handling and marketing of of each cotton crop that every pound of the staple will bring to the growers and to the Nation its full intrinsic value. Every dollar the growers receive will quickly find its way into the various national channels of commerce, giving impetus, strength, and activity to practically every department of American industry.

AMERICA HOLDS MONOPOLY OF PRODUCTION.

America produces 84.8 per cent of the ⅞-inch and above of the spinnable cotton crop of the world, and exports two-thirds of this production each year to foreign countries. Foreign nations have expended millions of dollars within the past 60 years to produce a similar staple in other countries, but without success. It would seem, therefore, that the present monopoly held by the United States in the almost

exclusive production of spinnable cotton as a world necessity will remain undisturbed in the future.

There are but two economic causes which have induced foreign countries to increase their efforts to become independent of the American staple. First, because of the expensive and uncommercial manner in which the cotton bales from this country are delivered at foreign ports, entailing heavy and unnecessary losses on foreign spinners and the multitudinous number of arbitrations and reclamations made against American exporters, due to the uneconomic methods of handling employed in the industry. Second, the real fear that the rapidity with which American cotton mills are being extended, without a corresponding increase in production, indicates that the time will not be far distant when the exports of raw cotton from this country will cease because of American consumption.

EXPANSION OF AMERICAN COTTON MILLS.

The building and expansion of American cotton mills can not be too strongly urged. No country has ever grown rich in the production and sale of a raw product. In its manufacture lies the larger increase of wealth, and the United States, through the manufacture of cotton into the finished fabric, should reach out and play its full part in the distribution of cotton fabrics throughout the nations of the world from our own American mills. Every pound of American cotton woven into the finished fabric in this country multiplies the value of the raw staple from four to six times. It is therefore an economic loss to ship so large a proportion of the American cotton crop abroad in the raw form.

Both of these apparent difficulties can be overcome by the adoption of economic and efficient reforms in the future baling and handling of American cotton and by the expansion, as needed, of the present cotton area of the United States. It can be stated, without fear of contradiction, that the cotton area of this Nation is quite enough extensive to supply all the needs of the world for raw cotton through the centuries to come, provided the price paid for the staple justifies its increased production by the growers. Not only can the present cotton area be multiplied manyfold, but under intensive and scientific culture the yield of lint cotton per acre can be doubled and trebled.

The area of the cotton belt of the United States is 1,400 miles long from east to west and 500 miles wide. This area contains 448,000,000 acres of land, a large proportion of which would be suitable for cotton culture, in addition to the production of ample supplies of food and feed crops to sustain the cotton growers.

The monopoly of the future control of the production of raw cotton is primarily a matter of price and the proper readjustment of the present primitive and wasteful methods of handling the staple in the markets of the world.

To solve these problems aright and in the interest of the whole country, there should be given in unstinted measure the full and active cooperation of the business interests of the entire Nation. Reconstruction in these economic matters means evolution forward along lines of modern and efficient methods.

RELATION OF COTTON TO NATIONAL INDUSTRY.

The vital relation of the South's cotton crop to the business life of America is shown in the simple statement that between 1880 and 1914, or 35 years, the total value of the foreign exports of raw cotton from this country was $10,843,114,637, or $2,887,437 more than the total of the world's gold production of $8,560,227,200 during the same period. In other words, if every ounce of gold mined on earth during that 35-year period had been poured into America, it would have fallen $2,282,887,437 short of paying America's bill against Europe and Asia for our raw cotton.

During the 10-year period of 1905 to 1914 the value of the exports of raw and manufactured cotton and cottonseed and its products aggregated about $5,700,000,000 as a contribution to our foreign trade. From the discovery of America in 1492 to 1914 the total production of gold for the entire world was $15,690,000,000, while the total value of the South's cotton crop, including seed, for the 35-year period, 1880–1914, was $18,164,000,000, or about $2,500,000,000 more than the value of the world's gold production for 423 years, from 1492 to 1914. It exceeds in value the whole world's output of the precious metals by 50 per cent.

COTTON HOLDS INTERNATIONAL TRADE BALANCE.

Cotton, therefore, generates an enormous commerce and provides a medium of exchange that almost entirely takes the place of gold in the settlement of interstate and international balances. Cotton, properly warehoused, is imperishable and

should always be convertible, and possesses more of the attributes of legal tender than anything produced by human labor, except gold.

America controls an absolute world monopoly in the production of 1-inch short staple cotton.

Cotton has always been regarded in the rest of the Nation as a sectional product. In the light of these facts, the cotton crop should, most assuredly, be regarded, not as a sectional product, but as a national product, without which our foreign trade could never have attained its enormous volume, and every man in America who is interested in the Nation's welfare should be enthusiastically interested in the whole cotton situation.

COTTON GROWING HAS BEEN A CURSE TO THE SOUTH.

An examination of the price paid for cotton for the period of 50 years before the War between the States, and for the period since the War between the States, brings to light the startling fact that the price has been lower since the abolishment of slavery than the price paid for cotton during slavery; hence, the present price paid for cotton, instead of being based upon slave wages, is really a price lower than based on slave wages.

Without cotton, the War between the States would never have occurred. Without cotton there would have been a diversification of agriculture in the South and it would have developed into a great manufacturing center. Without cotton the South would be the center of the grain, cattle, and hog industries of America. The fact that the South, with its fertile soils, unrivaled climate, and many natural advantages has failed to attract immigration is due to the low price of cotton, the prices paid for cotton being based upon slave labor. The cultivation of cotton offers the least remuneration, the greatest outlay of capital, and the greatest hazard of risk of any other agricultural crop in America.

Quoting from a statement made by Senator Heflin, of Alabama, before the World Cotton Conference in New Orleans in 1919, we find that he used the following language: "Nowhere in the world are sunshine and shower so mingled and measured out as in the cotton belt of the United States. The cotton farmer is producing diversified farming to-day as never before in the history of the cotton growing States. He has learned that he can make more money in raising hogs, cattle, corn, peas, peanuts, and other things, and, in order to produce a sufficient amount of cotton, the producer must be well paid for the cotton that he produces. He can not and he will not produce cotton at a loss."

WASTEFUL METHODS OF HANDLING.

The American cotton crop is handled in an antiquated, uneconomical manner. The United States Agricultural Department, as the result of an investigation, brings to light the fact that one entire cotton crop out of every ten is absolutely lost, this loss being the result of the uneconomical manner in which the said crop is handled. These losses, based upon the 1919 cotton crop and the prices then paid for cotton, are approximately as follows:

Country damage	$75,000,000
Sampling and repacks from waste	22,500,000
Excessive freight (land and water)	15,000,000
Recompression	19,000,000
Excessive storage and insurance charges	15,000,000
Undergrading	25,000,000
Total	171,500,000

The United States Agricultural Department also brings to light the fact that in addition to the enormous loss incurred on account of the uneconomic manner in the handling of the American cotton crop the producer is shouldered with fearful losses on account of the eneconomic and antiquated methods in the marketing of same.

For many years 70 per cent of each year's cotton crop has been dumped upon the markets and sold during the four months harvesting period, thereby violating the legitimate laws of supply and demand. This has resulted in putting upon the growers a heavy penalty in the form of low prices which were regulated by speculation rather than by the legitimate needs of consumption.

NATIONAL VS. SECTIONAL.

Until cotton is recognized as one of the greatest assets of this Nation, instead of as a sectional product, and is accorded its place in our commerce, and until cotton brings a profitable price to the grower, every Southern industry and interest will be retarded in development, as is strikingly brought out by Hon. Richard H. Edmonds, from whom I quote, as follows:

"Every line of manufacturing in the South will be limited in its development until cotton brings a profitable price to the grower.

"Every religious activity of home missions and foreign missions will be limited in its work and in its power to raise money for the extension of the Gospel throughout the world until cotton brings a profitable price to the grower.

"Every road construction undertaking in the South will be limited in its expansion and in its influence for good until cotton brings a profitable price to the grower.

"Every country school and every country church will continue as at present, inefficient, inadequate to the work it is trying to do, occupying, as in most cases, some wretched building unfit for the purpose until cotton brings a profitable price to the grower.

"Every school-teacher in the South, every minister of the Gospel in this section, will receive inadequate salaries until cotton brings a profitable price to the grower.

"In the light of these facts it becomes the solemn duty of every man and woman, regardless of profession or occupation, to do everything in their power to encourage the thought and to cooperate in the work of securing a profitable price to the grower.

"In the 11 years between 1909 and 1919, both inclusive, the total value of the cotton crop of the South was $13,236,000,000. Any fair valuation whatever would have caused these crops to sell for $25,000,000,000, and this extra $12,000,000,000 would have brought an enormous enrichment to every section of the cotton-producing region. It would have meant more and better schools and larger and more attractive churches. It would have meant a broad development of the whole educational system of the South. It would have prevented the great illiteracy which exists in many parts of the South. It would have taken out of the cotton fields the hundreds of thousands of women whose work has helped to make the cotton of the last 50 years, and without whose work the cotton crop could never have been sold at the prices which prevailed. It would have meant better roads and better farm conditions. It would have swept out of existence the miserable huts unfit for human habitation in which millions of negroes and poorer whites are compelled to live. It would have built up a broad prosperity on the farm and in the village, in the town and in the city, such as is seen in Nebraska, Iowa, and Kansas.

"Vast as is the $13,000,000,000 received in 11 years for the South's cotton, when taken by itself, a new light dawns upon the situation when studied in connection with the value of other crops. Cotton, the royal staple which shapes the politics, the industrial activities and the financial wealth of much of the world, brought $13,000,000,000 for 11 crops. But hay, of which we rarely think in terms of billions of dollars, brought during the same 11-year period over $11,000,000,000. Cotton means intense cultivation; hay grows without cultivation. Cotton brought to the South very small profit on the enormous total value produced. It neither enriched the soil nor the producer. It meant exhausting work to millions of people who cultivate it, but hay, which grew without cultivation, which was easily harvested and marketed, brought almost as much in aggregate value as the cotton crops and was to a very large extent net profit to the growers, as compared with scarcely any real profit for the cotton producers.

"Even the oat crops produced in the 11 years, reached in value more than half as much as the cotton crops.

"Wheat, which like hay, grows without cultivation after it has geen once sown, and which is easily harvested, yielded a total of $10,830,000,000, or nearly as much as cotton; while the value of the corn crop, which, except in the form of meats, enters scarcely at all into the Nation's foreign commerce, produced a total of more than $26,000,000,000, or double the value of the cotton crops, and to this should be added the value of the fodder, a very large item.

"Corn and wheat and oats and hay have yielded enormous profits to the growers. They have enriched the sections which produced them, enriched the individual growers and the communities, and brought abounding prosperity to people of all classes throughout the great grain and grass regions of the West. But cotton, earth's most priceless product, cotton which shapes the destiny of hundreds of millions of people who depend upon it for clothes, yielded a scanty living in the past to those who produced it. They exhausted their mental and physical vitality, exhausted

the soil, and drained the South as a whole in order to enrich the rest of the world at the expense of this section. Surely the time has come when any man who has a conscience void of offense to God and man, should unite in working for a price for cotton which would bring to the South and to individual cotton producers the abounding prosperity which wheat and corn and hay have given to the individual farmers of the West, as well as to all of the ramified interests of that section.

"Every man who seeks to break down the price of cotton is to the extent of his ability and influence striving to impoverish the cotton grower, to keep small children in the cotton field instead of in school, and to keep hundreds of thousands of women at work in the fields instead of caring for their homes, their husbands, and their children; he is striving, consciously or unconsciously, to keep millions of people in the slavery of poverty and ignorance more desperate by far than the slavery of the black man prior to the Civil War. Every manufacturer, every cotton factor, every speculator who seeks to bear the cotton market is guilty of a crime which in this day is more culpable than was the trade of the slave driver in olden days."

The fact that the American cotton crop is regarded as a sectional product, instead of a national product; that in addition to carrying the fearful burdens mentioned above, through the uneconomical manner of handling and marketing, the price of this great crop (an absolute necessity to American commerce), is largely controlled by England, which country only consumed 22 per cent of the American cotton crop, is indeed a reflection upon our national commerce.

OBJECTS OF AMERICAN COTTON ASSOCIATION—"WHAT DO I OWE TO MY TIMES, TO MY COUNTRY, TO MY NEIGHBORS, TO MY FRIENDS?"—SUCH WERE THE QUESTIONS WHICH MEN WERE ASKING THEMSELVES AFTER THE COMMENCEMENT OF THE WORLD WAR.

The commencement of the World War impressed upon the entire people of the South the necessity for placing the handling and marketing of the cotton crop upon an economic basis. It was found impossible to solve the economic problems of the South until the handling and marketing of the cotton crop was placed upon a profitable basis. This resulted in the organization of the American Cotton Association, embracing in its membership the growers and the allied friendly business interests of the cotton belt and other sections of the Nation. It was found necessary to secure national recognition of the cotton crop, as the solution of the South's economic problem could only be relieved by having cotton recognized as the greatest American staple asset.

The American Cotton Association, embracing in its membership the producers of cotton and their friendly allied business interests, was formed for the purpose of:

1. To protect the interests of the cotton producer and to improve his condition.
2. To promote economic regulation of cotton production to the end that supply shall be so adjusted to demand that the producer shall at no time be required to sell his product at less than a fair and reasonable profit.
3. To promote intelligent diversification of crops, and to develop markets for such crops, other than cotton, as may be profitably raised.
4. To improve and enlarge present existing warehousing facilities to the end that the producer may carry his crop, or such part as he may desire, at the minimum of expense and physical damage and at the maximum of security and financiability.
5. To broaden the markets for raw cotton and to enlarge the uses of cotton and cotton goods.
6. To improve and increase transportation and distribution facilities.
7. To collect information as to both domestic and foreign consumption of cotton, the state of trade, the extent of acreage, supply and condition of crop, and all other information of practical interest to the cotton industry, and to disseminate the results through the several suborganizations to every member of every community, together with directions as to the course to be pursued in order to secure the best results in view of the facts disclosed.
8. To do all and singular whatsoever may be conducive to the stability and profitableness of the cotton producing industry.

The national officials of the American Cotton Association (with the exception of the national secretary and his assistant), including the national board of directors and the national finance committee, numbering more than 75 of the outstanding men of the South, serve without compensation, and have practically paid, not only their own traveling expenses, but in addition to this they have contributed of their finances for the purpose of assisting in carrying forward this great work, contributing both of their time and means, purely as a matter of service.

Finances, in addition to the small amount coming to the national association from membership dues (the larger proportion of the membership dues going to the State associations), have been raised through sustaining memberships, similar to the method successfully adopted by the United States Chamber of Commerce, the sustaining membership dues extending over a period of three years, after which time it is felt that the association will have become thoroughly self-supporting.

The work of the association has grown to such tremendous proportions that to-day it is felt that its usefulness could be greatly enlarged, had it sufficient finances for this purpose.

The association is absolutely nonpolitical and numbers on its list of members and sustaining members men; not only throughout the entire length and breadth of the cotton producing South, but from various sections of the Nation. People who are interested in the upbuilding of a greater South and a greater Nation, realize that the American Cotton Association is handling a problem of national importance.

PROGRESS IN ECONOMIC REFORM.

The association has made great strides in placing the handling and marketing of the American cotton crop upon an economical business basis. However, we have reached the decision that unless the American cotton crop can be regarded not as a sectional product but as a national product, and unless it can be accorded its proper place in the commerce of the Nation, and unless we can receive the cooperation of every legitimate line of the cotton industry of the Nation for this purpose, then the South should to-day abandon the growing of cotton and should concentrate on diversified agriculture, which it can do to its great benefit, dropping cotton growing as rapidly as it can increase its interest in cattle, hogs, and corn. To adopt any other course, after an experience of half a century, would be little short of suicidal.

Representatives from various of the large cotton-consuming countries of the world, who were members on the commodity side of the peace conference, confirmed the statement that a matter of vital concern with these representatives was: "From whence will the world secure a sufficient supply of cotton?" Two representatives from the largest cotton-consuming countries made the statement during the sessions of the peace conference: "Viewing the cotton industry in its future requirements, we are brought face to face immediately with the fact that the matter of sufficient supplies of raw cotton will be a perplexing question for many years in the future."

Recent personal interviews with prominent members of the commodity side of the peace conference bring to light the fact that it was the judgment of a number of representatives of the commodity side of the peace conference that there would be practically a complete exhaustion of raw cotton supplies and that American short staple raw cotton would have brought, conservatively, $1 per pound; that this judgment was, of course, based upon the prompt ratification of the peace treaty, thus enabling the world to get busy and commence to rehabilitate.

COTTON CLOTHING INADEQUATE FOR WORLD POPULATION.

Nearly two-thirds of the world's population is as yet in its infancy in the extensive use of cotton goods, in addition to the increased needs for raw cotton to supply the wants of the people of the world with cotton goods. Due to the inability to secure same during the World War, we are, beyond question, facing the certainty of a marked and steady increase in the consumption of American cotton.

The matter of a sufficient supply of American raw cotton was the most important question considered at the World Cotton Conference held at New Orleans in October, 1919. This question received long and serious consideration by the committee on "World's Requirements and Stabilizing Production and Prices." The consensus of opinion of the best experts on this committee was that the future world supply of cotton and the steady demand for same would be a matter of serious concern for many years.

DEMAND FOR LARGE PRODUCTION.

It was the consensus of opinion of many of the best experts who were attending the World Cotton Conference in New Orleans that there would be a pressing demand for 15,000,000 bales of American cotton from the 1920 crop.

The matter of cotton acreage reduction for 1920 and increased acreage in food and feed crops of the South was receiving serious consideration before the convening of the World Cotton Conference at New Orleans, and it was only as a result of the information secured at that conference, and the agitation started there, that the campaign on cotton acreage reduction for the 1920 crop was abandoned.

It was felt to be only short of criminal and a poor business policy to reduce production under these conditions, and it was for this reason that the cotton acreage reduction campaign, which was started by the American Cotton Association in the fall of 1919, was abandoned. and this seemed to be the unanimous opinion of the representatives of the cotton-consuming world at the World Cotton Conference.

We produced in 1920 only 13,197,775 bales of cotton. Still to-day we are without markets, except at a price of approximately one-third the cost of production, and then only in a limited way. The farmer is being smothered with his own production. Business stagnation and paralysis, resulting from the destruction of the purchasing power of the farmer, is costing the country more every month than the total value of his production. In tragic contrast with this stupefying spectacle, hundreds of millions of people in Europe and Asia are ragged, cold, starving, and unable to utilize either their idle labor or their idle factories, for lack of the very product that is rotting in our fields and warehouses.

LONG-TIME CREDIT FOR EUROPE SAFE AND NECESSARY BOTH FOR US AND FOR THEM.

When we realize that these war broken countries have no money with which to buy our product, but that they have lands, forests, mines, factories, and mills as a sound basis of long-time credit, and industrious and thrifty populations ready and pathetically eager to multiply many times over the value of our raw materials by working them up into manufactured goods, it would seem that the conclusion reached by those attending the peace conference and the world cotton conference, concerning the demands of the world for an increased supply of raw cotton, was correct, and that all that is required to enable us, in a sane and businesslike way, to fill their aching economic void from our swollen economic surplus is a financial mechanism that will extend to them the long-time credits to which they are reasonably entitled, in order to enable them to purchase our supplies of raw material and manufactured products, and to rehabilitate their war broken countries.

DEFLATION DEMANDED CURTAILING PRODUCTION TO HALF CROP OF COTTON FOR 1921—COMMERCIAL LIFE OF SOUTH AT STAKE.

The price of cotton dropped from 43 cents, basis middling, in July, 1920, to 10 cents, basis middling, by the spring of 1921, and there was no market even at these figures, except in a limited way.

As a result of the conditions which existed, the conclusion was reached by our association, in the fall of 1920, that it would be nothing short of suicidal to produce more than a half crop of cotton in 1921, and accordingly a campaign was waged unceasingly for the purpose of reducing the 1921 cotton production and correspondingly increasing the production of food and feed crops.

In this campaign we had the cooperation of the Memphis cotton acreage committee, commissioners of agriculture, State extension forces, presidents of State bankers associations, cotton merchants, commercial fertilizer companies, supply merchants, local bankers, the Texas Farm Bureau Federation, the State divisions of the American Cotton Association, and the southern press. In fact the people of the South realized that their commercial life was in jeopardy, and practically the entire business life of the South joined us in this campaign.

The campaign has just been completed, and in the final reports of the American Cotton Association—the most accurate ever issued in the South—we find that the total area planted in cotton in 1921 is only 24,563,486 acres, or a reduction of 30.73 per cent in cotton acreage. With ideal weather conditions, we are facing the shortest cotton crop which has been produced in a quarter of a century: and with adverse weather conditions cotton supplies will be of serious concern to the world.

In addition to the acreage reduction, we find that on account of the inability of farmers to secure credits for either moneys or supplies for the cultivation of their crops, the cotton acreage abandoned after planting will break all records of the past, there being now an acreage abandonment of 4.95 per cent, and this will be largely increased.

We also find that there is a reduction in the use of commercial fertilizers (an absolute necessity to the production of the cotton crop), of 51.17 per cent, and that the fertilizers which are being used are of the cheapest grades. These figures show volume only, and not plant food or value. The American Cotton Association also finds that regardless of the fact that it is absolutely necessary to use heavy applications of the highest grade guano over a large proportion of the cotton belt, and it would be the part of economy to use such applications, still, the growers, as a matter of necessity, have been forced to reduce their fertilizer tonnage for the 1921 crop by 51.17 per cent, and the grades used are the cheapest made.

SHORT CROP FOR 1921.

Based upon the ideal producing season of 1920, and disregarding the reduction in the use of fertilizers we can only produce in 1921, 9,142,098 bales.

Based upon the five-year average and disregarding acreage abandonment and the reduction in the use of fertilizers, we can produce in 1921 only 8,178,671 bales.

Allowing a deduction in production this year of 12 per cent, on account of the reduction of 51.17 per cent in the use of commercial fertilizers, added to the acreage reduction of 30.73 per cent, making an estimated total of 42.73 per cent, the forecast of production for 1921, as compared with the 1920 crop, would be 7,558,365 bales.

If the estimated abandoned acreage after planting of 4.95 per cent (due to inability of farmers to secure credits and to adverse weather conditions) is added to the above estimate, making a grand total percentage of 47.86, the estimated production for 1921 as compared with the production in 1920, would be 6,905,075 bales.

Should the estimated percentage of reduction in acreage of 30.73 and 12 per cent allowed for the 51.17 per cent reduction in the use of commercial fertilizers, making a total of 42.73 per cent, be applied to the five-year average of production, amounting to 11,808,389 bales, the estimated production for 1921 would be 6,762,664 bales.

The estimated reduction in cotton acreage for 1921 to 24,563,486 acres closely approximates the acreage of 1897, when there was planted 24,319,584 acres.

Based upon the five-year average and taking into account the acreage abandonment already shown, and only for the volume of reduction in the use of fertilizers (not the value of the fertilizers), we can produce in 1921 only 6,178,149 bales.

Based upon these conditions, we are facing the certainty of the smallest cotton crop which we have produced in the last quarter of a century, and with adverse seasons the certainty of the cotton production being even far smaller.

SO-CALLED SURPLUS WILL BE ENORMOUSLY REDUCED BY REDUCTION OF ERRORS IN UNSPINNABLE COTTON—CENSUS OF SUPPLIES NOW BEING TAKEN BY THE UNITED STATES DEPARTMENT OF AGRICULTURE.

Since the commencement of the World War the cotton-consuming world has largely consumed the cream of the cotton crops, leaving the "skimmed milk." This has been startlingly confirmed as the result of an investigation which we recently conducted.

In order that the truth of the situation might be known, the American Cotton Association secured the passage of a Senate resolution, through the cooperation of Senator E. D. Smith, of South Carolina, authorizing the taking of a complete census of this class of cotton in the United States and to ascertain the grades of same, which report will be made known some time in the month of June, and the chaff, as alleged in the estimated surplus, will be separated from the good grades and the entire cotton trade placed upon notice as to the actual amount of spinnable cotton brought over from the 1920 cotton season.

The consensus of opinion in the minds of a large number of leading authorities in this country is that a large proportion of the estimated carry over on July 31, 1920, consisted of unspinnable grades of cotton, such as "bollies," "snaps," "regins," and "linters."

THE STATISTICAL POSITION OF COTTON STOCKS.

The statistical position of cotton in the United States, but excluding linters, as shown by Mr. W. R. Meadows, of the United States Department of Agriculture, a leading authority on cotton statistics, is as follows:

On hand Aug. 1, 1920, in running bales and including 252,455 equivalent 500-pound bales of foreign cotton	3,563,112	
Crop of 1920–21 in running bales	13,197,775	
Imports into the United States from Aug. 1, 1920, to Mar. 31, 1921, in equivalent 500-pound bales	183,511	
Total supply		16,944,398
American consumption from Aug. 1, 1920 to Mar. 31, 1921, inclusive, all growths	3,167,351	
Exports from the United States from Aug. 1, 1920, to Mar. 31, 1921, inclusive	3,872,022	
Total		7,039,373
Balance cotton on hand in United States, Apr. 1, 1921		9,905,025

In order to ascertain the prospective carry-over of cotton in the United States at the end of the season on July 31 next, the following figures are presented:

Balance on hand Apr. 1, 1921	9,905,025	
Estimated imports for next four months, Apr. 1, 1921, to July 31, inclusive, on the same basis as past eight months	92,000	
Estimated city crop, less cotton burned	150,000	
Total estimated supply for remainder of season, Apr. 1 to July 31, inclusive		10,147,025
Estimated consumption for next four months, April to July, inclusive, within the United States, based on consumption during last eight months	1,647,000	
Estimated exports for next four months, April to July, inclusive, taken as the same corresponding months of last year.	1,343,000	
Estimated total consumption and exports for four months, April to July, inclusive		2,990,000
Prospective carry-over on July 31, 1921, of cotton in the United States		7,157,025

However, from these figures the unspinnable cotton must be deducted, and this will greatly reduce the carry-over.

NOTE.—The consumption, before the season closes, will be bound to show much larger than the consumption shown in the estimate above, both domestic and foreign, for the cotton-consuming world, realizing the true condition concerning the so-called carry-over and the certainty of the shortest cotton crop in the last quarter of a century, and the revival of trade, world-wide, will increase purchases as a matter of self-protection to meet these changed conditions.

While it will be impossible to secure a census of American cotton in foreign storage and consuming establishments beyond question, in this prospective carry-over will also be included much of the same class of unspinnable cotton that is shown in the cotton in America.

DEMAND FOR RAW COTTON INCREASING.

The estimated domestic consumption, in all probability, will show a marked increase. Most assuredly the American manufacturer will not permit the exporter to secure the lion's share of the cheap cotton—cotton being sold far below the cost of production—especially when he realizes the absolute certainty that he is facing a record-breaking short crop of cotton for 1921, and that the so-called surplus will be largely reduced by unspinnable cotton.

THE PRICE OF COTTON.

In considering the price of cotton most assuredly we should not overlook the fact that even if we consider replacement costs instead of the cost of producing the 1920 crop, the price being paid for cotton is far below the possible cost of production for the 1921 crop.

The price of cotton, in line with other agricultural products, has been deflated far below the relative value. The present cost for the production of cotton shows a price far above the prewar level of prices. Transportation charges, labor, and interest, the wages of capital, have none of them contributed to the so-called deflation.

I wish to quote the following from one whose judgment is recognized as among the best on these questions:

"During the World War there were billions of commodities destroyed and consumed, the production of which was speeded up to meet the demand, but the production of cotton wasn't. There is naturally in the world now less commodities (and a deficit which will take years to replenish) than before they were destroyed. However, none of the world's gold has been destroyed, and credit and notes based on gold have been increased. Therefore it is very easy to see that the ratio between commodities and money is much lower than in normal times. There is more gold than other commodities; therefore gold will become cheaper and the price of commodities will advance. This is an economic law which is as sure to assert itself as the night follows the day, even if it is overshadowed now by mob psychology and pessimism. For the past 10 months everything has been going down, and naturally the housekeeper would not buy a towel or hardly a thing when she saw prices were falling every day. This has

been a buyers' strike, which has dammed up a potential demand beyond the expectation of the most optimistic. The homes are out of clothes, the retail stores are empty, the jobbers have small stocks, and the manufacturers have been buying from hand to mouth. Europe has no clothes or supplies of cotton, and many hundreds of thousands of our carry-overs are just that many piles of rotten linters. Where will the supply come from with such a small American crop, together with the fact that the Sultan of Egypt has ordered their acreage to be cut 33 per cent?

"Cotton from the earliest times has been produced with practically slave labor, but with the education of the Negro and the blotting out of the illiteracy of the South we will refuse to work on a basis of 50 cents a day, with no chance of a higher standard of living, when with less effort the laborer can get $60 per month, with board, in the West and much more than that in the industrial North.

"Up until the war the price of commodities increased about 4 per cent a year under normal conditions. Therefore the price of cotton with a normal crop of 22,000,000 would be 24 per cent higher in price than in 1912–13, even if we had not had war inflation. These are the statements of America's best economists and statisticians, and in thinking of normal we should not think of 1912–13 prices but add to these about 24 per cent.

"There is a condition in the future contract that has been generally overlooked. In 1917 the New York contract was changed from 16 grades to 8 grades, so that the contract is now more of an even-running middling contract. Therefore the New York contract is now, since 1917, worth 2 cents per pound more than the one traded in prior to the war. There is also a difference of at least 50 points in the freight. Therefore the 12.53 for July New York to-day is the equivalent there of 10.03 in prewar times."

DEFLATION IN VALUES HAS PARALYZED AGRICULTURE—UNLESS RELIEVED WILL INFLICT FEARFUL PENALTY UPON ENTIRE NATION—HAS REACHED SUCH A SCOPE THAT NATIONAL GOVERNMENT SHOULD ACT IN THE INTEREST OF AGRICULTURE, COMMERCE, AND CIVILIZATION.

Deflation in farm values, which was so unexpectedly precipitated upon the country in August of 1920, found the cotton growers with their crops ready for harvest and without the power to protect themselves from the debacle of constantly lowering prices. There was no opportunity to check production, as in the case of mines and manufacturing industries. The crop had been produced at the peak of high cost and the growers suddenly found themselves facing a market of bankrupt values.

The banks in the South, in the late spring and early summer of 1920, for the first time in their history, loaned a great deal of money to the banks in the great commercial centers of the North, thinking that, in making these loans (upon solicitation), they were offered an opportunity for profitably placing their idle funds; not once dreaming or anticipating that there was the remotest possibility of a deflation campaign. As a result, the force of the deflation campaign was added to tenfold, on account of the inability of the banks in the agricultural sections to recall funds desperately needed for the protection of their customers, which funds had been loaned in the great commercial centers. This condition added greatly to the destructiveness of the buyers' panic, which destructive and wrecking panic was entirely and absolutely the result of the policy of deflation enforced from Washington.

From an expectancy of $2,500,000,000 for the cotton crop of 1920, when cultivation ceased in July, the growers of that crop have sustained a loss of nearly $2,000,000,000. No part of this loss was profit but represents a net loss deducted from the actual cost of producing the cotton crop in 1920.

This unparalleled sinking of values completely paralyzed the financial ability of the growers to meet their heavy maturing obligations in the fall of 1920 or to finance the production of another normal crop of cotton in 1921.

THE FEARFUL LOSSES FORCED UPON THE PRODUCER, DURING THE DEFLATION PERIOD, FORCES THE ABSOLUTE CERTAINTY OF A GREAT SHORTAGE IN PRODUCTION, FAMINE SUPPLIES, FAMINE PRICES, HE BEING FORCED TO ADOPT THIS COURSE, BOTH ON ACCOUNT OF HIS INABILITY TO SECURE THE MEANS WHEREWITH TO PRODUCE, AND ALSO AS A MATTER OF SELF PRESERVATION.

Enforced deflation in values, restrictions of credits and exports, have thrown back the machinery of production on a limited scale of 25 years ago. This will ultimately result in an intense shortage of supplies to meet the oncoming revival of the world spindle capacity. Heavy demand and restricted supplies will enforce an enormous burden upon the ultimate consumers of cotton goods. No department of a great

gricultural staple can be stricken down without a severe penalty reacting upon the ltimate consumers of that product. The longer the present situation lasts, the heavier ill be the penalty enacted upon the consumers, as this is an immutable law of ommerce.

HE UNITED STATES CROP-REPORTING BUREAU WILL MAKE ALLOWANCES FOR REDUCTION IN FERTILIZER AND FOR QUALITY OF FERTILIZERS USED, ALSO FOR ACREAGE ABANDONMENT, IN ALL REPORTS AFTER THE JUNE REPORT. THIS BY REQUEST OF AMERICAN COTTON ASSOCIATION.

The United States Agricultural Crop-Reporting Bureau, realizing the true condition oncerning agriculture, that crops under these conditions will be seriously reduced, addition to the acreage reduction, by not only the reduction in tonnage of fertilizer, ut also by the inferior quality used, and by the inability of the farmer to secure the eans with which to cultivate his crop, has therefore very wisely decided, for the rst time, to make a special investigation of these conditions and employ the same making all reports after the June report.

FINANCING COTTON PRODUCTION A NATIONAL PROBLEM.

There is no staple agricultural product which presents a more attractive collateral r financing than the American cotton crop. It is the most liquid asset in the Nation, nd when properly stored and insured, typifies the safest security for loans.

Raw cotton has never enjoyed the benefits of a high-class collateral security for ans, because the proper machinery for storage, insurance, and inspection has not een put into practical operation. Splendid progress has been made locally in this spect, however, during the past two years, under the leadership of the American otton Association, throughout the entire cotton belt.

When a safe system of issuing short-term certificates of indebtedness or debentures gainst cotton, properly stored, has been put into operation it will present a new ational field for investment by the whole people, which will be as safe and as attractive to the investor as Government bonds.

With the staple financed in the storage, the supply can be marketed and distributed as to meet only the demands of legitimate consumption during each 12-month period. his will insure orderly marketing, stability of prices, and the maintenance of values cceptable to both the producers and the manufacturers.

INVOLVES NATIONAL ACTION.

This is a national question which should promptly appeal to and receive the hearty dorsement and cooperation of the leading financiers of the nation. The saving of nly a small fractional part of a cent per pound in the value of each cotton crop mounts to many millions of dollars in the aggregate. When these reforms guarantee saving of many cents per pound it presents an economic situation of great force to he financial and business interests of the whole country.

The European method of agricultural finance presents a most attractive and practical ystem which could be quickly and safely applied to American staple agricultural roducts like cotton. There is capital here in abundance waiting to finance the eeds of the American cotton crop, and the obstacle standing in the way is the absence f the necessary machinery and the education of the population of this Nation on the uperior safety of cotton as a collateral security for loans.

ATIONAL GOVERNMENT EXPENDITURES—AGRICULTURE AND EDUCATION RECEIVE MERE PITTANCE—COMMON SENSE WOULD PLAINLY DICTATE THAT AGRICULTURE, THE FOUNDATION STONE OF CIVILIZATION AND COMMERCE AND EDUCATION, THE BUILDER OF THE MINDS AND SOULS OF MEN AND OUR CIVILIZATION ITSELF, SHOULD RECEIVE ALL BUT A PITTANCE OF THE APPROPRIATIONS INSTEAD OF THE MERE CRUMBS.

Your specific attention is called to the enormous expenditures of the Government's income for destructive rather than for constructive purposes. Our total national appropriations for 1920 amounted to $5,686,000,000. Of this total, 68 per cent was paid out for past wars; 25 per cent for future wars and the maintanance of the Army and Navy; 3 per cent for civil government; 3 per cent for public works; and 1 per cent for education and agriculture. The cost of each one of our new battleships was $40,000,000 and its annual upkeep amounts to $3,000,000. The Government appropriates to the whole of American agriculture less than the cost of a single first-class battleship which goes to the junk pile in a few years, or is sunk at sea from target practice.

No country can prosper indefinitely which spends 93 per cent of its income—burdens on the people—for destructive purposes, while at the same time permitting its agriculture to decay for want of proper support.

SOLUTION OF PRESENT PROBLEM.

The total of gold money of the entire world is estimated at $9,000,000,000. The United States possesses $3,200,000,000 of this amount, which is more than one-third of the world's supply. The report of the Federal reserve bank shows that the total of their notes in circulation is $2,700,000,000. The circulation of our paper money is immensely less than our actual gold reserve.

We have an appalling exhibit of contraction. The standard of value, since the cotton crop was planted, in fact since August, 1920 (and all necessary expense of producing the crop, except the actual harvesting, had been incurred at the highest basis of standard of value), has been reduced to the gold basis. The measure of circulation has been reduced by hundreds of millions of dollars below the available gold supply.

The farmer was assured that there would be a pressing need on the part of the cotton consuming world for not less than a 15,000,000-bale American cotton crop in 1920. As a result he abandoned his predetermined plan to reduce production, feeling that it would be little short of criminal to reduce production while there was the assurance that there would be a pressing demand at profitable prices. He produced his cotton crop upon the inflated dollar. If he is forced to sell it without a market and at a price of less than one-third the cost of production for a deflated dollar—a dollar changed in value from approximately 38 cents when he planted to 100 cents when he sells—it can mean but one thing—his absolute commercial annihilation.

It would require from 8 to 10 years to bring about orderly deflation: still, complete deflation has been attempted within 8 to 10 months.

Relief to the cotton producers and the business men can only come by a necessary increased circulation, by a more liberal extension of credits, by the Federal reserve system granting a rediscount rate of 4½ per cent to not exceeding 5 per cent on agricultural and commercial paper, and by renewals of agricultural loans (known as frozen assets, on account of their being no market for the products until the exports are opened up). It is only in this way that relief can be secured. Surely cotton and other products must be carried until exports can be opened up. Surely the producer must continue to produce. If this relief is not extended, his product will pass into the hands of the gambler and the speculator, on a market without a bidder, for less than one-third the cost of production. He will then be without a means for producing, and as a result, eventually, the ultimate consumer, commerce, and civilization will pay a fearful penalty.

To overcome the financial difficulties of the cotton growers at this time, brought about by an artificial deflation in values, and to put the cotton industry of the Nation on its feet, there must be united effort on the part of the Government and of the business interests of the country. The channels of commerce which have been stagnated for the past 10 months, must be opened, and normal trade relations reestablished. The forces which had the power to stagnate commerce and restrict world credits must also have the power to reopen commerce and reestablish credits.

Exports of raw cotton must be stimulated and the resumption of consumption must be revived, in order that markets may be opened and the way of the farmer made possible.

The War Finance Corporation has been revived and the present administration at Washington is being conducted along sound lines of a national desire to aid the rehabilitation of American agriculture. Obstructive forces have been checked and the way is being opened for a revival of American industry. United cooperation of all the forces which go to make up this great Nation will clear the way of getting back to normalacy and the reestablishment of reason and safety.

The American Cotton Association is forcefully blazing the way for economic reform and efficiency in the future handling and marketing of American cotton. In this highly commendable work, the association seeks the valued aid and cooperation of the various lines of the cotton industry and those business interests which are more vitally identified with the trade of the cotton belt. The purpose sought is to strengthen the productive ability of the cotton-growing States and to upbuild the commerce of the whole Nation.

QUESTION OF VITAL IMPORTANCE.

The vital question for determination is whether the Nation, as a whole, will recognize and appreciate the American cotton crop as a great national asset and give whole-hearted cooperation toward a reconstruction of our cotton industry upon a basis of its profitable production and economic handling throughout the future years to come, or shall we be forced to realize that cotton production must continue to bear the curse of Cain?

The cotton belt population of this Nation makes no appeal to Governmental paternalism or the fostering care and support of any special interest. The time has come when the future economic agricultural problem of the cotton States must be solved upon a more stable basis for their rural population. If cotton is to continue to be the hand maiden of slave labor, to be continuously stricken down by powerful special interests in this country and in Great Britain, the American Cotton Association and its large affiliated interests should be so informed by those departments of American industry which are more intimately interested in the wealth of the cotton crop.

THE SOUTH AND MIDDLE WEST.

If the cotton States must reconstruct their agriculture and gradually join hands with the Middle West in the production of food and feed crops, allowing cotton production to go back once more to the peasant labor of the Far East, from whence it came to us, there is no better time to formulate the change than the present.

The American Cotton Association can and will lead the way to economic reform and the establishment of the American cotton industry upon a profitable basis to the growers, and thereby distribute billions of wealth from the staple each year into our national channels of commerce, if the business interests of the Nation will give their dutiful support to the movement. It can not be done upon any other basis. Farmers are producers and are not trained in the expert knowledge of marketing along economic and efficient methods. The economic handling, financing, marketing, and distribution of the cotton crop is the one big outstanding problem for national solution. Upon the correct solution of that problem depends the future destiny of cotton on American farms, and the constant and unfailing supply of the staple to the nations of the world. Goldsmith well says:

"Ill fares the land, to hastening ills a prey,
Where wealth accumulates, and men decay.
Princes and lords may flourish or may fade,—
A breath can make them, as a breath has made;
But a bold peasantry, their country's pride,
When once destroyed, can never be supplied."

American agriculture occupies the same position to-day that agriculture in the cotton States occupied in 1865, just after the Civil War when commercial slavery was shackled upon the producers of the South.

CONSTRUCTIVE AGRICULTURAL LEGISLATION IMPERATIVE.

If it is impossible to secure the cooperation of the various lines of the cotton industry, then it will become necessary for the South and the West to form a corelation in the National Legislature for the purpose of controlling the balance of power in having enacted into legislation necessary measures for the protection and upbuilding of our agricultural interests. The farmer can not continue to produce and sell for less than the cost of production, as this will destroy the foundation of commerce and civilization will perish.

The great agricultural West and the great agricultural South, in fact, the agricultural interests of the entire Nation, are to-day fully awake to the danger confronting them and recognize the vital necessity of cooperation for mutual protection and benefits, and, as a result, are joining forces; and more constructive agricultural legislation as a result will be passed than has been placed on our statute books in the last half century. This long-delayed legislation will not bring benefits to the agricultural interests of the South and West alone, but to the entire Nation.

There must be a revival of the industry by the cooperation of Government and all lines of industry, or the primary wealth producers of the United States will be unable to supply the needs of commerce, and a cataclysm of unrest and dissatisfaction will insure in all lines of business.

It is not known where he who invented the plow was born nor where he died, yet we must realize that he has effected more for the happiness of the world than all the

race of heroes and conquerors who have drenched it with tears and manured it with blood, and whose birth, parentage, and education have been handed down to us with a precision precisely proportionate to the mischief they have done.

Has not the time at last arrived when the science of destruction should bend before the arts of peace; when genius, which multiplies our powers, which creates new production, which diffuses comfort and happiness among the great mass of the people, should occupy in the general estimation of mankind, the rank which reason and common sense now assign it?

Mr. WANNAMAKER. Resolutions were passed at the conference at which that speech was delivered, asking for more liberal credits and reduced rediscount interest rates, which resolutions are as follows:

RESOLUTIONS ADOPTED BY THE COTTON CONSULTATION CONFERENCE.

Following are the resolutions adopted by the First National Cotton Consultation Conference, at the close of its business session:

"The cotton-growing industry and the entire agriculture of the Nation is suffering from unspeakable losses in price values and stagnated markets in America and restricted exports. Deflation in farm values, which so unexpectedly precipitated upon the country in August, 1920, found the cotton growers with their crops ready for harvest and without power to protect themselves from the debacle of constantly lowering prices. The crop was produced at the peak of high cost, and the growers found themselves facing bankrupt values. From an expectancy of $2,500,000,000 for the cotton crop in July, 1920, when cultivation ceased, the growers of that crop sustained a loss of $1,500,000,000, no part of which was profit, but represented a net loss deducted from the actual cost of production.

"The restrictions of credits and high rate of rediscount charged on farm loans has rendered it impossible for farmers to plant and cultivate a normal crop of cotton in 1921, but, on the contrary, present indications point to the smallest cotton acreage planted within the past 25 years.

"The Nation's permanent prosperity and the progress of its entire industrial, transportation, and financial life depends upon the success of its agriculture.

"It is imperative that American agriculture in the cotton belt, as elsewhere, be rehabilitated as rapidly as possible through a more liberal expansion of credits, lowering of the Federal reserve banking rediscount rates, and opening up of foreign markets: Therefore be it

"*Resolved, by the Cotton Growers' Conference Consultation, in session at New York City, May 30 and 31*, That the Government of the United States, through its present administration, be urged:

"First. To authorize and grant a more liberal expansion of credits on farm loans.

"Second. That the Federal reserve bank rediscount rate be lowered without delay to a figure not in excess of 5 per cent on the rediscounts of farm products and all commercial paper.

"Third. That the War Finance Corporation and Department of Commerce render all possible aid in opening up exports for cotton and other American raw products, so as to stimulate the movement and consumption of such commodities as rapidly as possible."

"Uniformity in standardizing the various grades of American cotton is an important essential in the economic and efficient marketing of the crop, both in domestic and foreign commerce.

"The United States Department of Agriculture has been empowered by Federal statute to standardize the said grades for specified domestic market points, but has no authority to make the system compulsory on the entire cotton trade in this country. Therefore, be it

"*Resolved*, That the representatives of cotton growers, manufacturers, cotton merchants, and the American cotton exchanges are hereby urged to cooperate for securing a prompt adoption of the United States standard of cotton grades in the handling and marketing of the cotton crop throughout all market points within the American Union. Be it further

"*Resolved*, That the American delegates to the World Cotton Conference be, and they are hereby, requested to present this important matter to the international conference of affiliated cotton interests, which will assemble at Liverpool and Manchester, England, June 13 to 23, and urge adoption of the United States standard of cotton grades in the international marketing of American cotton between American exporters and foreign purchasers of the staple.

"*Resolved*, That the American Cotton Conference in convention assembled does hereby recommend the cooperation of the cotton-growing States in stabilizing the price of cotton. and to that end make such inquiries as will contribute to the accomplishment of this purpose.

"The Cotton Consultation Conference received at its opening session a splendid message of statesmanship and true Americanism from Warren G. Harding, President of the United States. Therefore, be it

"*Resolved*, That in accordance with the spirit of the message and the views actuating the thought and proceedings of this conference, we call upon and urge the active and valued cooperation of all departments of the American cotton industry, with particular reference to the growers, manufacturers, distributors, and allied business interests of the Nation, mutually to cooperate along sound conservative business lines for the speedy enactment of those economic and efficient reforms in the production, handling, marketing, and distributing the cotton crop which are so vital to the further success of the industry. Be it further

'*Resolved*. That the entire cotton interests of America, in cooperation with the present administration at Washington, exercise every legitimate effort to stimulate the consumption of cotton in this country and abroad, so that the producers, manufacturers, and distributors of the American staple may be freed from present stagnated markets and that the industry as a whole may once more regain its fitting place in the commerce of the Nation..

"The American delegates to the World's Cotton Conference will depart for England on June 1, and whereas the delegates have the best wishes of this convention for a safe voyage and successful conference with the representatives of the world's affiliated cotton interests; and whereas the President of the United States, in a message to this convention, has called specific attention to the importance of the said World Cotton Conference. Therefore, be it

"*Resolved*, That a full copy of the splendid message of President Harding be incorporated herewith and delivered to the said American delegates, with the request of this convention that said message be presented to the International Cotton Conference for its approval.

"Delegates to the Cotton Consultation Conference have had every possible courtesy extended to them by the cordial hospitality of the management of the Pennsylvania Hotel; the welcome of the city of New York; the splendid entertainment of Russell R. Whitman, of the New York Commercial; the Western Electric Co., and the valuable cooperation of the press representatives. Therefore, be it

"*Resolved*, That this conference extends its highest appreciation of the many courtesies extended as referred to above, which have in so great a measure tended to the comfort and pleasure of the delegates and the success of this conference."

J. A. Rountree, director general, United States Good Roads Association, introduced the following resolution, which was adopted by a rising vote on motion of Senator Joseph E. Ransdell, of Louisiana:

"*Resolved*, That the presiding officer of this conference be authorized and requested to wire an appreciation to President Harding for his patriotic message that he delivered over the phone to the Cotton Conference and express our thanks for the same.

"To honorable WARREN G. HARDING,
"*President, Washington, D. C.*

"The delegates of the Cotton Consultation Conference, in session at New York City, May 30, 1921, unanimously adopted the following resolution:

"*Resolved*, That this conference has received and heard with great pleasure your message of good will, your sympathy and cooperation in our work, and that we extend to you our deepest thanks and most profound appreciation of your interest in our efforts to solve the grave problems that now confront the cotton industry of the Nation."

There is no stimulus to business activities which is more prompt and effective than reasonably low interest rates charged to the people for credits in all lines of business endeavor. The records show that for five years after the formation of the Federal reserve banking system the rediscount rates were as low as could be reasonably expected. This was during a period of general prosperity in the whole country. We find, as a result of the drastic artificial deflation policy of the Federal Reserve Board, that rediscount rates have not only been and are now abnormally high but that in many sections of the cotton belt the rediscount interest rates are usurious. It is my judgment as a banker, merchant, and farmer—and I find that my

judgment is confirmed by leading bankers and business men, not only from the cotton belt, but from various sections of the country—that confidence can not be restored and business returned to a normal basis until the rediscount interest rates are lowered beyond the rates recently established by the regional reserve banks.

I would therefore urge your thoughtful consideration to the wisdom of bringing all possible pressure to bear upon the various Federal reserve districts and the Federal Reserve Board to have the rediscount interest rates on Liberty bonds lowered to 3½ per cent and on agricultural and commercial paper to a sliding scale of from 4 per cent to 4½ per cent, based upon the time such loans are to run.

The business and industry of the whole country has been stricken a severe blow as a result of the policy of drastic artificial deflation enforced through the Federal reserve banking system, and every possible aid should now be given by that system to help in rebuilding the shattered business of the Nation. In this connection, the lowering of the present high rediscount interest rates should be promptly made effective.

Mr. Chairman, I have here an article entitled "History of the Federal reserve banking system, and its effect upon the agriculture and commerce of the Nation under existing methods of its operation;" also an article entitled "President Wannamaker gives facts in reply to distorted and incorrect statements, made in the testimony of Gov. W. P. G. Harding before the Joint Congressional Committee on Agricultural Inquiry at Washington on August 5;" also an article entitled "Unanimous indictment of the policy of the Federal reserve banking system by the people, as primary and continuing cause of drastic deflation in values of farm products, stagnation of business, and if persisted in will bring bankruptcy and ruin to entire nation;" also some figures showing the statistical supply of cotton, covering especially export since 1914; also an article entitled "The relationship of supplies to consumption for next 12 months, an analysis of the raw-cotton situation;" also an article entitled "Reporting untenderable grades of cotton each year by Government;" also plans proposed for drastic reduction in cotton production and for destruction of boll weevil; plan 1 is a reduction over a series of years, beginning 1922; and plan 2, total elimination of cotton production for year 1922 to destroy boll weevil; also copies of telegrams exchanged between myself and Hon. Sydney Anderson, chairman of this commission, on August 8 and 9, 1921; also correspondence between the Federal Reserve Bank of Richmond and myself, and others, which I think is pertinent to this inquiry, and all of which articles and statements and correspondence I ask to be incorporated in the record.

The CHAIRMAN. Without objection, they may be so incorporated.

(The various articles and matter last-above referred to are printed in full, as follows:)

HISTORY OF THE FEDERAL RESERVE BANKING SYSTEM AND ITS EFFECT UPON THE AGRICULTURE AND COMMERCE OF THE NATION UNDER EXISTING METHODS OF ITS OPERATION.

The Federal reserve banking system came into existence during the trying times which shortly followed the outbreak of hostilities in the World War. The price of cotton went down to 6 cents per pound in the winter of 1914-15, just before the 12 Federal reserve banks were established and opened for business throughout the United States in the spring of 1915.

Two powerful and appealing reasons were put forth before the country for the enactment of the Federal reserve law. One was that the banking interests of the country would forever more be freed from the dominion and control of large Wall Street bankers and the other was, that monetary panics of any kind in this country would be for all time to come obliterated.

In less than six years after the establishment of the Federal reserve banking system the whole country is found floundering under the most violent monetary panic this nation has ever suffered from in the past, and if reports be true, the large banking interests of the East control a tighter grip on the finances of the United States than even in the alleged palmiest days of Wall Street's greatest power. Not only this, but it is also alleged by high Government officials and prominent banking officials, that the present nation-wide panic was deliberately planned by a majority of the membership of the Federal Reserve Board under an enforced policy of deflation in market values by restrictions of credits, contraction of the currency and usuriously high rediscount rates. This policy destroyed confidence in markets and created the most gigantic buyers' panic the world has ever recorded.

HOW THE FEDERAL RESERVE BANKING SYSTEM OPERATES.

There are very few people who know much about the operations of the Federal reserve banks, except those National and State banks which have joined the system and are known as member banks. The law makes it compulsory for every national bank, big and little, to join or have their national charters canceled. State banks can, if they wish, become member banks by complying with the national bank act. Under the law every bank which joined the system had to subscribe to Federal reserve bank stock in an amount equal to 6 per cent of the entire capital and surplus of each such bank. This subscription to the stock gave each Federal reserve bank its operating capital in each Federal reserve district. This stock is supposed to draw 6 per cent interest per annum in dividends to the subscribing member banks. What would happen if it were known that any private system of banking, Wall Street or elsewhere, was deliberately controlling the finances of this Nation in such a way as to bankrupt the people and stagnate business, while at the same time profiteering to the extent of 200 per cent on its capital? Yet the Government, supposed to protect and safeguard the financial interests of the people, is now openly charged with being guilty of just that thing.

TRANSFER OF DEMAND DEPOSITS AND TIME DEPOSITS.

The member banks are also required to keep on deposit with the Federal reserve bank of their respective districts 7 per cent of their demand deposits and 3 per cent of their total time deposits, to be known as reserve balances. If a member bank is located in a Federal reserve bank center, it must deposit 10 per cent of its aggregate demand deposits and 3 per cent of its time deposits. The member banks receive no interest whatever on these deposits, but they are used to swell the reserves or deposit of funds with the Federal reserve banks. The stock subscribed for by the member banks, as stated above, is not only nontransferable, but can not be hypothecated for loans. Doubtless the privilege of rediscounts compensates for these requirements, as the member banks appear satisfied with the system, or at least they don't make any public noise about it.

Another item of expense on the member banks is that they are required to pay examination fees in proportion to their capital and surplus for compensating national bank examiners and their expenses for examining the banks at least semiannually, to see that their affairs are kept in proper shape and the laws of the Federal reserve system are fully complied with.

HIGH RATES OF REDISCOUNT.

Southern member banks of the Federal reserve banking system have undoubtedly been hard hit by the excessively high rediscount rates charged by the system, as well as the people who have been forced to stand the hardship of that enforced method of deflation and paralyzing markets and business.

Until quite recently the rediscount rate has been 7 per cent per annum, and all during the past winter, in order to check credits, the system put on what was known as an upward sliding scale of rediscount rates, which went up to 20, 30, and 40 per cent, and in some instances higher than that, to check credits. Without committing usury the banks have been supporting the Federal reserve banking system all these months without compensation to themselves, while at the same time contributing to

the enormous and unconscionable method of profiteering by the Federal reserve banks. It is a bad condition of affairs when the farmers are forced to sell their products at one-third the cost of production. the banks forced to do business largely without profits to themselves, while the Federal reserve banking system is netting from 150 to 200 per cent profit.

POWER OF FEDERAL RESERVE BANKING SYSTEM.

Whether Congress so intended it or not, the seven members of the Federal Reserve Board who sit in secret at Washington, have unlimited and autocratic power over the banking machinery, currency, and methods of finance in this Nation. The Federal Reserve Board has and exercises the power to deflate or inflate the currency to suit themselves without regard to the welfare of the people of the commerce and business of the country. The board has the power to fix the rediscount interest rate, to restrict the credits of member banks, and to contract or expand the issue of currency. The board also has the power to say whether the people of this great Republic shall prosper or go down in bankruptcy and ruin.

Instead of being the mainstay to ward off panics, we find the Federal reserve system charged by high Government officials with devising and forcing on the people the greatest panic ever recorded in history. While the Federal Reserve Board has no statutory authority of law to regulate the price of raw products or commodities of any kind, yet the board usurped that authority as its leading propaganda last year to bolster up its scheme for deflation through the arbitrary restriction of credits, contraction of currency, and sliding scale of high and exorbitant rediscount interest rates. We can find nowhere in the Federal reserve act any authority under which the board can purchase property, but it is reported that recently the board purchased a piece of property in New York for $16,000,000 upon which to construct a building for use of the New York district bank. If these statements are true, the power of Congress to make appropriations has been nullified, and the constitutional rights of the Government and the people have become subordinated to the autocratic power of the Federal Reserve Board.

PERSONNEL OF FEDERAL RESERVE BOARD.

Section 10 of the Federal reserve act reads as follows:

"A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country."

President Wilson, in selecting the present five members of the board, appointed two bankers, one college professor, one lawyer, and a newspaper man, so we are informed from the records. The vast agricultural and commercial industries of the Nation were totally disregarded and the plain language of the law ignored. Consequently, the agricultural and commercial interests of the Nation have no representation on the board and no sympathetic cooperation on the part of the present membership thereof.

Notwithstanding that the Federal reserve act specifically states that agricultural paper when indorsed by a member bank shall be eligible for rediscount, the board arbitrarily refused to accept such paper for loans when passing through the hands of cotton factors. This has created an unwarranted and unjustified hardship upon thousands of cotton growers who had been heretofore financed through their factors during the spring and fall months.

WHERE WILL THE END BE?

The enforced destruction of property values from any cause is confiscatory when those who are oppressed have no right of defense. Since the policy of the Federal reserve banks started last year to restrict credits and currency and advanced the rediscount rates for the announced purpose of forcing deflation in values on the country, the press has reported a large number of suicides by bankers and farmers, and many bankruptcies from all sections of the cotton belt. Many farmers and merchants have lost their reason and are to-day in insane asylums or private sanitariums. Banks in many sections which have carried an almost unbearable burden of loans to

help their patrons will be unable to declare dividends because of the high rediscount rates imposed upon them by the Federal reserve banks. Business is stagnant, and the farmers are without markets for their products and heavily involved in debt with no credit facilities. But the Federal reserve banks have profiteered off the sufferings of the people to the extent of 200 per cent in the last 12 months, according to official reports. The banking department of the Government is refusing to collect the interest on its foreign loans, while at the same time forcing the sale of securities and products in this country in its demand for the liquidation of loans by American banks to the Federal reserve banks.

Bankers, business men, and farmers are now beginning to understand and to protest against a continuation of these bankrupting methods on the part of the Federal reserve system. These murmurings will grow into louder mutterings in the near future, and if the policy of the reserve system is not changed there will be chaos from one end of this country to the other. The people will not indefinitely submit to these conditions, and there must be a change for the better in the near future. Congress should so amend the Federal reserve bank act so as to secure for the people a helpful financial system, which was the original intent and purpose of the act.

It is now reported that the Federal reserve system could legally and safely issue \$2,000,000,000 more of currency and still remain within the limits of a 40 per cent gold reserve. Gold is being pyramided to an enormous height by the Government, while currency with which to conduct business continues to be contracted. Until confidence is restored business will continue to be stagnated, and confidence will not be restored until the present policy of the Federal Reserve Board is reversed.

PRESIDENT WANNAMAKER GIVES THE FACTS IN REPLY TO DISTORTED AND INCORRECT STATEMENTS MADE IN THE TESTIMONY OF GOV. W. P. G. HARDING BEFORE THE JOINT CONGRESSIONAL COMMITTEE ON AGRICULTURAL INQUIRY AT WASHINGTON AUGUST 5.

Gov. W. P. G. Harding, of the Federal Reserve Board, in his testimony before the Joint Congressional Committee on Agricultural Inquiry, August 5, made the following statement:

"In other words, they wanted us to sanction a loan of 32 cents a pound on cotton, which was worth at that time normally on the market, I think, 28 cents a pound, I think the chart will show, and it went to 25 cents a pound, and then went down every month until it hit the bottom."

The above statement was furnished to me as part of Gov. Harding's testimony on August 5 in a telegram received from Chairman Sydney Anderson, of the Committee on Agricultural Inquiry. On August 6 the newspapers of the country carried the following dispatch on the statement in reporting the testimony of Gov. Harding:

"Mr. Harding told of the refusal of the board to grant a request of J. S. Wannamaker, president of the American Cotton Association, that loans at a rate of 32 cents a pound be authorized on cotton. 'Cotton then was selling in New York at 28 cents a pound and went down in a few days thereafter to 25,' said Mr. Harding. 'I was never so sorry for anybody in my life, but it wasn't sound banking practice, and we couldn't authorize such procedure.'"

In the testimony given above by Gov. Harding he was referring to a conference which a committee representing the American Cotton Association had with the Federal Reserve Board at Washington September 15, 1920. It must be further borne in mind that the War Finance Corporation had been suspended by Secretary of the Treasury David F. Houston and that foreign exports had been stagnated, as well as home markets, although two-thirds of the cotton crop would have to be exported in order to find consumptive markets. This committee, some of whose names are given below, was selected by the bankers' section of the American Cotton Association and numbered in its personnel several presidents and ex-presidents of State bankers' associations:

Ex-Gov. Richard I. Manning, Columbia, S. C.; J. S. Wannamaker, president American Cotton Association, St. Matthews, S. C.; J. A. Brown, Chadbourn, N. C.; J. A. Moss, Tignall, Ga.; R. E. L. Wilson, Wilson, Ark.; Col. J. O. Thompson, Birmingham, Ala.; L. S. Tomlinson, Wilson, N. C.; R. C. Hamer, Eastover, S. C.; R. W. Mattox, Newnan, Ga.; J. W. McGrath, Brookhaven, Miss.; J. R. Alexander, Scott, Ark; D. E. Lyday, Dallas, Tex.; W. H. Andrews, Andrews, S. C.; William Coleman, Union, S. C.; H. W. Fraser, Georgetown, S. C.; C. S. Fitzpatrick, Helena, Ark.; L. I. Guion, Lugoff, S. C.; B. C. Powell, Little Rock, Ark.

In addition to these there were a number of other southern business men present, including Congressmen and Senators, making a total of about 50 in the party. It can be positively stated here that no such request as testified to above by Gov. Harding was ever made by any member of the committee in whole or in part either at the time of the conference or at any other time or place. Such a request would have been absurd and in violation of all known banking rules and regulations.

The above-stated committee met in session at Washington on September 14 and after careful and thoughtful consideration of then-existing financial and agricultural situation throughout the South and Nation formulated and prepared the following resolution, which was submitted to the Federal Reserve Board in conference on September 15, 1920:

STATEMENT WHICH WAS READ, EXPLAINED BY SECTION, AND PRESENTED TO THE FEDERAL RESERVE BOARD BY A SPECIAL COMMITTEE OF THE AMERICAN COTTON ASSOCIATION AT WASHINGTON, D. C., SEPTEMBER 15, 1920.

Whereas there being doubt and uncertainty among the member banks in the Richmond, Atlanta, Dallas, and St. Louis districts of the Federal reserve system, arising out of an apparent difference in the position of these four districts as reflected in their official bulletins released from time to time as to the attitude of the Federal reserve bank with regard to the movement of and financing of the cotton crop so as to provide for its gradual and orderly marketing, and

Whereas it is imperative that a definite understanding be had on these points to restore confidence and enable an intelligent and sound procedure on the part of the banks in these districts in handling the credit situation involved by reason of unprecedented conditions existing caused by:

1. The lateness of the present crop.
2. Lack of the demand from the domestic cotton merchants and manufacturers.
3. The heavy reduction in the foreign demand on account of the complicated foreign situation and the inability of the foreign countries to buy and pay for raw cotton: Therefore be it

Resolved, That it is the opinion of the delegation of the American Cotton Association that the situation will be materially relieved if the following suggestions are adopted, namely:

That such necessary renewals be granted on loans based on agricultural paper now held under rediscount from member banks in the districts mentioned, to enable a gradual and orderly marketing of the crop on which the credits are based, either by the renewal of the agricultural paper or the substitution therefor of commodity-secured paper where expedient or by loans on cotton in warehouses with proper receipts as provided for in section 13 of the Federal reserve act; be it further

Resolved, That the board be assured that these suggestions are made not for the purpose of hoarding or providing credit for speculating in spot cotton, but for the sole purpose as aforesaid of providing for gradual and orderly marketing under the adverse conditions as they exist, and thereby providing a sure liquidation.

Not a single word is incorporated in the above statement presented to the Federal Reserve Board which could in any manner be distorted into the conclusions brought out in the testimony of Gov. Harding. There is not the remotest suggestion as to prices or a percentage of values upon which loans on cotton stored were to be based. Gov. Harding's statement is a distinct reflection upon the business ability of every banker and business man on the committee who appeared at the conference and does grave injustice to the American Cotton Association as a whole. His statement is absolutely incorrect in every particular and he has no record of any kind to sustain the charges made.

STATEMENT PREPARED BY THE COMMITTEE AND GIVEN TO PRESS NOT PUBLISHED. BUT DISTORTED PUBLICATION APPEARED WHICH AMAZED THE COMMITTEE AS NOT RECITING CONFERENCE RESULTS.

After the above-stated conference with the Federal Reserve Board adjourned, the committee assembled and prepared the following press statement which was believed to fairly represent the result of the conference:

REPORT CONFERENCE OF AMERICAN COTTON ASSOCIATION REPRESENTATIVES WITH FEDERAL RESERVE BOARD, WASHINGTON, D. C., SEPTEMBER 15, 1920.

More than 50 representatives of the American Cotton Association, representing the agricultural and commercial life of the cotton-producing section of America, headed by President J. S. Wannamaker, conferred with the Federal Reserve Board on September 15 relative to the cotton situation.

Ex-Gov. R. I. Manning, of South Carolina, presented the case for the cotton association, pointing out that the association, while speaking primarily of cotton, really included in its wishes all staple agricultural products. He emphasized that the American Cotton Association was not asking for anything but had come rather for the purpose of getting a better understanding of the board's policy with respect to credits for orderly marketing of agricultural products.

Gov. Harding, responding for the board, emphasized the thorough agreement of the board with the American Cotton Association in the desire for the gradual orderly marketing of staple agricultural products, especially cotton.

Gov. Harding, with more than ordinary emphasis, drew attention to the fact that there seemed to be an organized effort to mislead the public as to the policy of the Federal Reserve Board touching the matter of the contraction of credits to essential industries, including especially all agricultural products. While stating that the board had undertaken to reduce credits for nonessential and for speculative purposes, he pointed out that it was not now the policy of the board, nor had it been, nor would it be, to restrict credits for the assistance of essential industries, and especially agricultural products. He produced figures to show that from September 1, 1919, to September 1, 1920, there had been a larger extension of credits for essential purposes than at any period in the history of the country except the period of 1917-18, and that since the end of August this year, on account of crop-moving demand, the Federal reserve note issues have been increased at a rate of from thirty to forty millions of dollars a week, and that bills discounted in vaults of the Federal reserve banks had increased at a rate of about fifty millions of dollars a week. Gov. Harding pointed out that whatever liquidation had gone on through the Federal reserve system recently was for the very purpose of putting the member banks in a position to take care of this very situation which he foresaw more than a year ago.

The impression was distinctly given that the board's policy was sympathetic to an orderly movement of the crops and that such a movement was a necessity dependent to a large extent upon the credit situation.

Among other suggestions Gov. Harding spoke of the need for the formation of export corporations under the terms of the Edge Act, and drew attention to the fact that under the terms of this act the capital stock of such corporations might be subscribed in cotton. He referred to recent conversations with several Washington representatives of central European countries who expressed the desire of a need for low-grade cotton, but who pointed out that these countries could not go into the market unless credits could be extended to their manufacturers for periods of from six to nine months. These manufacturers would give us collateral liens upon the cotton in process of manufacture, backed by the joint indorsement of a consortium of banks and further guaranteed by the governments themselves. Gov. Harding indorsed strongly the efforts of the American Cotton Association to organize such export corporations and expressed the belief that in their operations a way for such a distribution of cotton as would bring the manufacturer and producer thereof in direct contact with each other.

At the conclusion of Gov. Harding's statement, President Wannamaker and other delegates expressed their complete satisfaction therewith and the belief that such a reassuring statement as had been made to the delegation would meet a quick response throughout the country in a more optimistic view of the future of all enterprises and especially of those engaged in the production of agricultural necessities.

The above statement was given out to the press on the afternoon of September 15, 1920, and country-wide publicity of the same requested. In lieu of the statement, the following distorted and totally unfair publication appeared in the general press:

RESERVE BOARD REFUSES AID TO COTTON GROWERS—GOV. HARDING TELLS REPRESENTATIVES CREDIT CAN NOT BE EXTENDED TO ALLOW THEM TO HOLD CROPS.

WASHINGTON, *September 15.*

Requests of the American Cotton Association for governmental aid in financing the marketing of the cotton crop of the South were denied to-day by Gov. Harding, of the Federal Reserve Board.

The representatives of the association asked extension of credit on cotton loans estimated at approximately $500,000,000, in order to permit growers to hold their cotton and prevent dumping on the market at a loss.

The solution of the problem facing southern cotton producers, Gov. Harding said, lay with the producers themselves and in their home banks.

"Go home and tell the people to quit talking calamity," the governor declared, suggesting that the cotton men sell their high-grade stock to meet demands as they arise, which would enable them to gradually liquidate their debts, and hold their low-grade cotton for a better market.

The Federal Reserve Board is keenly alive to the importance of doing everything to sustain agriculture in all sections of the country, the governor told the association members, but he added that the board was not authorized to deal in prices, though its actions might have an effect upon them. Recent estimates of the value of this year's staple crop are $22,000,000,000, the governor stated, and expansion of credit to assist producers in all parts of the country would mean about $3,000,000,000 in loans.

Who prepared, suggested, or authorized such a statement for publication we have no adequate knowledge, although Gov. Harding is quoted in the statement which was prepared and sent out to the public.

STATEMENT OF GOV. HARDING DENOUNCED AS ABSOLUTELY INCORRECT, MISLEADING, AND UNJUST BY MEMBERS WHO ATTENDED CONFERENCE AND PUBLICATION OF TRUE FACTS DEMANDED.

As soon as the press reports appeared giving the testimony of Gov. Harding before the congressional committee on August 5, a number of those who attended the conference with the Federal Reserve Board on September 15, 1920, as representatives of the American Cotton Association, were promptly notified, and without exception each and every one pronounced the statement by Gov. Harding as without foundation in fact, grossly incorrect, and unjust. In addition to this, long distance telephone calls, telegrams, and letters from various sections urge that correction be issued by the association without delay. Many members of the conference brand Gov. Harding's statement as distorted and totally misleading as to the facts.

Instead of furnishing the congressional committee with a correct copy of the records of the conference on September 15, 1920, I felt it was best to first give Gov. Harding an opportunity to correct his statement, as he wires me he has found a correct copy of the records. After an exchange of a number of telegrams, however, Gov. Harding continues to refuse to make correction of his unjust and misleading statement. It becomes imperative, therefore, that we give publicity to the matter and file with the congressional committee copies of the true facts, however embarrassing it may now prove to Gov. Harding.

CAREFUL AND CORRECT STENOGRAPHIC RECORDS KEPT OF ALL CONFERENCES, AND COPIES OF LETTERS AND TELEGRAMS WITH GOV. HARDING ON FILE IN OFFICES OF AMERICAN COTTON ASSOCIATION.

A full and complete report of these entire matters will be given out to the public through the columns of Cotton News at a later date. Many valuable documents bearing upon the removal of the War Finance Corporation by David H. Houston, ex-Secretary of the Treasury, and of the deflation policy of the Federal Reserve Board, are in the confidential files of the American Cotton Association. The causes which originated and produced the distressing financial conditions in the past 12 months will be fully understood when this information is released. Some of the most startling information, however, can not be released without the consent of those giving it in a confidential way. We are suffering because of artificial deflation forced upon the country which has destroyed the orderly financial machinery of the nation. Statements, such as that made by Gov. Harding, if allowed to pass unchallenged, would destroy our influence, which is all we now have left as a result of the deflation policy of the Federal Reserve Board.

As a result of this artificial deflation policy of the Federal Reserve Board, which was first made effective in the suspension of the War Finance Corporation, practically closing exports, followed by raising the rediscount interest rates to a usurious figure on Liberty bonds, agricultural and commercial paper; the restriction of credits and contraction of currency, which in the last 12 months has caused a loss of $8,000,000,000 in the values of American agriculture, and $17,000,000,000 in the commerce of the Nation.

Learning of the destructive artificial deflation policies being enforced after the crop had been planted, it being impossible to curtail production, we bitterly opposed the removal of the War Finance Corporation, and the September conference was for the purpose of showing benefits to the agriculture and commerce of the Nation by a reversal of the policy of deflation, which, if continued, we realized would result in wreck and ruin.

This fact is clearly established from the official reports of the Comptroller of the Currency and of the Federal Reserve Board in the following financial statements from June 30, 1920, to April 28, 1921, a 10-months' period of intense deflation in credits with excessively high interest rates:

On June 30, 1920, the total loans and discounts of the national banks in the United States stood at $12,396,900,000, and by April 28, 1921, they had been restricted to $11,367,074,000, a loss in the credit machinery of the Federal reserve banking system of $1,029,826,000 in the short space of ten months. The total deposits in national banks on June 30, 1920, were $17,155,421,000 and by April 28, 1921, these had been, reduced to $14,851,859,000, a loss in deposits within that period of $2,303,562,000. During the same time, the currency of the Nation was contracted $460,000,000, which makes a grand total deflation in the financial resources of the Nation of $3,733,418,000, or $37 per capita.

The Comptroller of the Currency stated on August 2 that the Federal reserve banks could now issue $2,692,000,000 of additional Federal reserve notes, or grant $3,076,-860,000 of additional deposit credits, and still maintain the legal gold reserve basis of 40 per cent. These figures from the comptroller's office prove that while the per capita circulation, based upon the gold reserve, was decreased $460,000,000 in the past 12 months, that the gold reserve actually increased $502,472,000.

Per capita circulation as is startlingly illustrated above, does not mean the actual money in circulation, as a great amount of said per capita circulation may be locked up and hoarded by those who are assisting in the deflation policy. However, it is amazing to realize the fearful contraction of per capita circulation in the United States as compared with the other leading financial countries, as follows:

	Per capita circulation.
United States:	
June 30, 1914	$34.35
June 30, 1921	53.42
Increase	19.07
Great Britain:	
June 30, 1914	19.46
July 6, 1921	45.53
Increase	26.07
France:	
June 30, 1914	61.17
June 30, 1921	185.19
Increase	124.02
Germany:	
June 30, 1914	20.03
July 7, 1921	368.62
Increase	348.59
Italy:	
June 30, 1914	15.25
May 31, 1921	106.08
Increase	90.83

The increase per capita circulation shown in the United States is not only entirely out of line in this proportion with the increase per capita circulation shown in the above countries, but in addition to this it fails to show the increase per capita circulation necessary based upon the enormous cost of the World War to America. We largely financed the World War, necessitating inflation for years, instead of deflation as has been so severely enforced during the past year.

While the figures show an apparent increase in the per capita circulation in the United States of $19.07 over the circulation of 1914, it does not mean that this amount is in actual circulation. As a matter of fact, deflation in the currency, contraction in credit resources, and loss in deposits during the past 12 months amounted to $37 per capita, which makes the available financial resources of the people at this time far less than they were in 1914.

FEDERAL RESERVE REDISCOUNT INTEREST RATES HIGHEST DURING ADVERSITY OF THE PEOPLE.

The following interest table shows the rediscount interest rates charged bv regional reserve banks from the time the system began operation in 1915 to 1921. The lowest rates are on 30-day paper, the next highest on 60 to 90 day paper, and the highest on 4 to 6 months agricultural loans:

	30 days.	60 to 90 days.	4 to 6 months.
July 1—	*Per cent.*	*Per cent.*	*Per cent.*
1915	4	4½	5
1916	3½	4	5
1917	3½	4	5
1918	4¾	4½	5¼
1919	4	4¾	5¼
1920	5½	6	7
1921	6	6	6¼

From these rediscount figures it is quite evident that the interest rates of the system are lowest during periods of the greatest prosperity in business, while maximum and usurious rates of interest were charged in a period of the greatest adversity of the people.

As an evidence of the application of unjust and usurious rediscount interest rates to the largest territory of the cotton belt, the regional reserve banks at Atlanta, Dallas, St. Louis, and Kansas City were directed and forced by the Federal Reserve Board to put on a high progressive rediscount interest rate running from 15 to 25 per cent and higher, which was not applied by any other regional reserve banks in the United States.

REGIONAL RESERVE BANKS MAKE ENORMOUSLY PROFITEERING INCOMES WHILE THE PEOPLE SUFFER RUINOUS LOSSES FROM DEFLATION POLICY.

It is reported by reliable authorities that the records of the following regional reserve banks show the net earnings stated below during the past 12 months: Boston, 120 per cent; New York, 203 per cent; Philadelphia, 121 per cent; Cleveland, 110 per cent; Richmond, 118 per cent; Atlanta, 151 per cent; Chicago, 178 per cent; St. Louis, 121 per cent; Minneapolis, 112 per cent.

Dallas, Kansas City, and San Francisco, likewise, are reported as earning above 100 per cent.

While farmers were told to sell and take their losses, the same system which enforced artificial deflation was piling up illegal and unrighteous profits. Any financial system operating under the laws of any country which is permitted to so unrighteously take advantage of the suffering needs and helplessness of the people, is not justified by any rule of right in modern civilization.

These are facts which can not be distorted by general denials or prophetic advices on the part of Gov. Harding to sell the best grades of cotton and pay up outstanding obligations. Sell to whom? The cotton crop for four years had been combed for the better grades. The big crop of 1920 was in the ground growing when the deflation policy was forced upon the Nation, and could not be sold before harvest. Two-thirds of each American cotton crop must be exported if sold at all. It is necessary to insure the expense of producing a crop before it can be sold, and I fully realized that any curtailment of exports by a policy of deflation would paralyze the cotton industry even greater than any other line of agriculture. I fully realized that such action would bring wreck and ruin to all lines of agriculture, and it was for this reason that I used every effort possible to ascertain if there would be any such action taken, and it was only upon the assurance that the War Finance Corporation would function actively and there would be no policy of artificially enforced deflation that the full 1920 cotton crop was planted. David F. Houston, the then Secretary of the Treasury, suspended the War Finance Corporation in the spring of 1920, with the distinct declaration that his action was taken to restrict the exports of American farm products so as to force down their market value. This action of the Treasurer and chairman of the Federal Reserve Board laid the foundation for the deflation policy for restrictions in credits, contraction of the currency, and high rediscount interest rates which destroyed confidence in business, stagnated markets, created a nation and world-wide

"buyers' panic," and produced a loss of $8,000,000,000 in farm products and $17,000,000 in American commerce in the short space of 12 months.

Had our requests been granted, confidence would have been restored, markets stimulated, and to-day, instead of being face to face with world-wide financial depression and stagnated markets, all of which has been caused by artificial deflation, we would be in the midst of business activity, prosperity, and contentment.

Statements, such as those made by Gov. Harding, if allowed to pass unchallenged and uncorrected, would practically destroy our influence, which is about all there is now left from the ruinous financial policy enforced by the Federal Reserve Board upon the country at large.

In conclusion, we might quote the following truism:

> "Who steals my purse steals trash;
> But he that filches from me my good name
> Robs me of that which not enriches him
> And makes me poor indeed."

J. S. WANNAMAKER,
President American Cotton Association.

UNANIMOUS INDICTMENT OF THE POLICY OF THE FEDERAL RESERVE BANKING SYSTEM BY THE PEOPLE, AS PRIMARY AND CONTINUING CAUSE OF DRASTIC DEFLATION IN VALUES OF FARM PRODUCTS, STAGNATION OF BUSINESS, AND IF PERSISTED IN WILL BRING BANKRUPTCY AND RUIN TO ENTIRE NATION.

President Wannamaker, of the American Cotton Association, has set about to secure a direct verdict from the people regarding the primary causes which have produced so fearful a cataclysm in the drastic deflation of values of farm products, stagnated markets and business, restricted credits, and paralyzed the agricultural and commercial life of the Nation.

Thousands of questionnaires on the situation have been mailed out to leading bankers, farmers, merchants, business and professional men in all parts of the country. Replies to the questionnaire are now pouring in to the headquarters of the American Cotton Association by the hundreds, all giving practically the same opinions and urging in the strongest language an immediate reversal of the present policies of the Federal reserve banking system.

Below is published the questionnaire in full, giving therein replies to questions asked, which are typical of 99 per cent of the replies received to date. The specific attention of readers of Cotton News is called to the questions and answers given as outlining a correct census of the general views of the people in their analysis of existing deplorable conditions:

QUESTIONNAIRE.

Please answer the following inquiries to the best of your knowledge and make such suggestions relative to the causes of existing conditions in agriculture, especially the raw cotton industry, and outline in your judgment the necessary Federal aid and legislation required to relieve the present depressing financial situation.

1. Q. What effect has the present policy of deflation had upon agriculture in your State?—A. It has been disastrous, destroying absolutely the purchasing and debt-paying powers of the farmers and their allied business interests.

2. Q. What effect will it have if continued?—A. Absolute paralysis, bankruptcy, and ruin for the agricultural and commercial life of the Nation.

3. Q. Will it cause decreased production on account of lack of credits?—A. Yes. Deflation in market values of farm products far below the cost of production means an enforced deflation in the production of crops as a matter of self-defense by the farmers, which will inevitably result in heavily penalizing the consumers through the payment of higher prices due to scarcity of supplies.

4. Q. Will the cotton growers be able to meet their obligations and conduct their farming operations free of debt if forced to sell their cotton at present prices in your State?—A. No. If forced to liquidate indebtedness at present low prices and because of no credits, farmers will be so bankrupt they can not produce except in an extremely limited way.

5. Q. Is the cotton market in your State stagnated, or is there an active demand for cotton by cotton mills?—A. Yes. There is practically no demand except for the best grades of cotton, and prices for the lower grades are ruinous.

6. Q. State and county taxes due by farmers for the year 1920 are, in thousands of instances, still unpaid, owing to inability of farmers to secure credits and funds. Does this condition exist in your State?—A. Yes. Payments extended only with penalties and if farmers are forced to pay at present prices for cotton, it will cause more foreclosures of sales than ever before recorded.

7. Q. What effect has deflation had upon the commercial and banking activities of your State?—A. Almost ruined. Universal bankruptcy will follow unless present situation is relieved by higher prices for cotton and other farm products so as to restore the debt-paying power of the people.

8. Q. Do you favor an extension of present loans made by banks to farmers, with cotton as collateral security, until markets improve and better prices prevail?—A. Yes; in justice to the borrowers. If sales are forced for liquidation it means certain inability of farmers to pay their debts to bankers and merchants.

9. Q. Are the bankers in your State calling cotton loans? If so, why?—A. Only under conditions where forced by the persistent demand of the regional reserve bank. Our bankers have been extremely liberal in carrying loans to the full extent of their credit and resources.

10. Q. Has the policy of deflation, restricted credits, and high discount rates, caused commercial and agricultural bankruptcy to an increased extent in your State, and will it cause additional failures if continued?—A. Yes. It undoubtedly will if relief from existing conditions is not speedily secured.

11. Q. To what extent has the purchasing and debt paying power of the agricultural interests of your State been decreased in the past 12 months, as a result of deflation in the price of cotton?—A. An average of 75 per cent. It will take years of hard work and rigid economy for farmers to liquidate their indebtedness caused by low prices for their products due to deflation.

12. Q. Has deflation caused the bankers of your State losses on account of being forced to pay high rediscount rates?—A. Yes. Impossible to pay high rediscount rates without charging usurious rates of interest. The progressive rediscount rates and constant requirement of additional collaterals on loans to protect their consumers' paper has been a fearful burden on the banks.

13. Q. Are the bankers of your State likely to sustain losses on cotton loans as a result of heavy deflation in prices of cotton, if relief to present market conditions is not promptly secured?—A. Yes. They are forced to carry frozen loans, including farm mortgages, life insurance policies, and other nonliquid securities due to stagnated markets and are largely forced to do business without compensation enough to pay operating expenses or to declare dividends.

14. Q. Are the bankers of your State carrying cotton loans without difficulties, and are they making new loans to farmers as usual for crop productive purposes?—A. No. Great difficulty being experienced on account continuous demand regional reserve banks to demand liquidation of cotton loans. Bankers' credits exhausted with old loans and impossible to make new loans for productive purposes.

15. Q. How do bank loans to farmers in your State this year for productive purposes compare with prewar loans for similar purposes?—A. No comparison. No loans being made except in an extremely limited way on liquid security. Comparative average with last year 20 per cent, and in some sections not over 2 per cent.

16. Q. How does the present decrease in the price of cotton to producers compare with the percentage in the decrease of the price of the finished fabrics to the consumers in your State?—A. Decrease in price of cotton 75 per cent, while decrease in manufactured goods only about 15 per cent.

17. Q. What effect will the present deflation in the market values of farm products in your State have upon the attendance of farm students in common schools, colleges, and universities, as compared with former years?—A. Will greatly reduce common-school attendance due to inability of parents to properly clothe their children and the enforced requirements for labor on the farm. The attendance on colleges and universities will be reduced fully 60 per cent due to the financial inability of parents to meet the necessary expenses for tuition, board, etc.

18. Q. Are you in favor of the reversal of the policy of the Federal reserve banking system in the continued enforcement of deflation in market values of farm products?—A. Yes. Most emphatically. Said policy the worst of the ages and has already produced incalculable damage to farmers not alone in the cotton States, but to all agricultural and commerce throughout the Nation.

19. Q. Are you in favor of restrictions of credits and currency and continued high rediscount rates which have been imposed upon the country by the Federal reserve banking system to enforce deflation?—A. No. Its continuence means total destruction of debt paying and purchasing power of the people and will result in agricultural and commercial slavery to the controlling financial powers of the United States.

20. Q. Do you favor the lowering of the rediscount rate on Liberty bonds to 4 per cent per annum on an assessed valuation of 80 per cent of the face value of such bonds in limited loans?—A. Yes. The distinct undertanding and promise by the Government when Liberty bonds were bought was that they would be carried at 4 per cent. Existing fearful conditions have forced large numbers of people to sacrifice their bonds to pay debts and shoulder the heavy losses on same, which has produced bitter resentment.

21. Q. Do you favor a lowering of the present rediscount rate to 4½ per cent or 5 per cent on agricultural and commercial paper?—A. Yes. It is utterly impossible to deflate the values of farm products with an inflated interest rate without destroying the financial status of the producers. Consider policy of the Federal reserve banking system in putting on an artificial deflation of prices with an increasing high rediscount rate, with a contraction of the currency, a most fatal mistake.

22. Q. Do you favor the immediate enactment of Federal legislation and aid so as as to relieve the present financial depression in the cotton belt and place business back on a normal basis, through restoration of confidence in the banking and credit facilities of the country?—A. Yes. A prompt reversal of the policies which brought on deflation and the granting of liberal credits and low rediscount rates are a necessity to prevent a calamity.

23. Q. Do you favor the enactment of additional legislation by Congress to enable the War Finance Corporation to render every possible aid in financing exports of cotton and other raw products on long term credits during existing international trading conditions?—A. Yes. It is vitally necessary to export surplus raw products to European countries where needed in order to rehabilitate our stricken and stagnated markets, meet personal obligations, pay the war debt, and reestablish business on a normal basis.

24. Q. Owing to the enormous gold reserve, the Government can now safely issue two billions of Federal reserve notes and thereby increase the circulation of currency so drastically restricted, within the past year. Do you favor such a policy to increase credits, inspire confidence, and rehabilitate business? If so, to what extent?—A. Yes. To the limit of safety and legal requirements. The people of this country should not be sacrificed on a cross of gold, which will be the result of accumulating an enormous gold reserve without utilizing it in furnishing ample credits and currency to the agricultural and commercial requirements of the whole Nation.

SUMMARIES BY A FEW OF THE HUNDREDS OF CORRESPONDENTS WHO HAVE FILLED OUT THE QUESTIONNAIRES OF WHICH THE ABOVE IS TYPICAL.

The replies to the above-stated inquiries are more fully emphasized in the symposium of the correspondent's remarks as printed below. Each and every questionnaire received gives emphatic indorsement of the necessity for the granting of a rediscount rate by the Federal reserve banking system of 4½ per cent on all agricultural and commercial paper; the granting of more liberal credits; the extension of loans on agricultural paper based upon farm products in storage until markets are reestablished: and the issue of currency against the present heavy gold reserve to the limit of legal safety. These facts show the general trend of thought all over the country on this important matter and absolutely indorses the attitude of the American Cotton Association in its hard and persistent efforts to secure the right kind of financial relief for the stricken farmers of the cotton belt and other sections of the country. Deflation in market values means heavy deflation in production as a matter of self-preservation to the producers. Tying up the money of the country in a large financial center by excessive borrowing of the surplus in local banks in the South and other sections by eastern banks, as happended last year, the restrictions of credit and currency with unprecedented high interest rediscount rates which has characterized the policy of the Federal reserve system for the past 12 months, have brought about a cataclysm of wreck and ruin which has well-nigh bankrupted the country while turning hundreds of millions of profits into the cold-blooded coffers of the large financial centers of America.

The following symposium of summaries of replies to the questionnaires are printed because of the views they express on the pending situation, but the names of the authors are withheld due to the fact that the information is given in a personal way without authority to make public the names of the writers, who are prominent men of affairs in all sections of the cotton belt:

A prominent and successful farmer: "Of course I have answered the foregoing questions based upon my observation in the territory where I reside and from information as gathered from various ones from other sections of the State with whom I've conversed, and from newspaper reports, and as for my opinion, I feel that our Govern-

ment in some way is the cause of existing conditions, which if allowed to continue very much longer will bankrupt the entire South—at least that portion growing cotton. We were told by those supposedly in authority in the beginning of 1920 to plant all the cotton we could, the world would need all we could raise to clothe it; raise all the foodstuff we could, the world was hungry. In other words, 'Go to it, boys.' We had been doing for several years what the Government wanted us to as best we could, so 'we went to it' to do out best; paid the very highest thing that went into the making of the crop. The Government should now help up, in some way, prices for the crop of 1920 which was made, as we thought, by their commands; and as soon as any of our products were ready for the market we found that we were being offered a price below the cost of production—prices dropping lower and lower every day until they now spell ruination."

Wholesale merchant and banker: "If the Federal Reserve Board would announce that the Federal reserve banks in the cotton district would put at the disposal of the cotton grower not less than a hundred million dollars money could be loaned through the member banks carrying a rediscount rate to member banks of 4½ per cent, said loan to be independent of the line of credit the member banks have with the regional bank; confidence would at once be restored and the wheels of commerce would begin to revolve again. Confidence, to a large extent, fixes the price of commodities; destroy confidence and you destroy commodity values and the wheels of commerce cease to revolve as soon as that is done. It will be necessary also to assure member banks that all cotton paper will be renewed during 1921. A certain group expects considerable liquidation during the month of July. That is the thing that is keeping the price of cotton down now. The letters that are being sent out by the Federal Reserve Board that the amount referred to above is at the disposal of the cotton grower and that the cotton paper in existence now will be renewed this year, many bears would become bulls in the cotton market."

Prominent State official of the Southwest: "A permanent League of Nations to prevent wars; the reduction of navies and standing armies; reduction of tariff taxes in order to expand our trade; cutting out half the activities of the Federal Government and giving the States a chance to attend to their own business, will do more to revive business than all other laws that Congress might pass."

A large farmer: "This is the first time in a deflating period that farm products or raw materials fell in price first, showing that the Federal Reserve Board, to bring about this drastic deflation, struck agriculture a death blow, and the whole economic structure fell on top of it. In my humble judgment, the only possible way to restore conditions, is to restore agricultural credit, so that the producer can sell his products at some profit. Hence, I favor the plan as outlined in your questionnaire. You can not exaggerate the terrible condition now existing in this country. Tell Senators and Congressmen that if they don't get something done, that their people will lose their homes and everything else."

Farmer and banker: "The only hope that we have is that we can get a further reduction of 20 per cent on 1922 cotton crop and August is the month to start a Southwide fight for the planting of foodstuff and cover crops for 1922. The surplus cotton must be eliminated and can be by the planting of sufficient foodstuff for man and beast."

Large farmer: "Cotton is so far below the production that unless something is done to relieve the situation, every farmer, business man and banker will be bankrupt inside of 10 months."

Prominent leader farm organization work Southwest: "The War Finance Corporation should be permitted to extend credits to exporters for long period, or reorganize the War Risk Bureau so the exporter could secure the proper insurance against political outbreaks for overthrow of governments. Of course they should pay for same. This would protect the exporter, enable him with safety to extend credits; move our surplus products; put foreign mills in operation, thereby building up the world's commercial structure. We must learn that we will have to finance our products to all markets of the world."

Cotton planter and banker: "I do not believe the present Federal reserve bank officials will allow any measure to effect relief a bit more than Houston allowed the War Finance Corporation to function. I believe they should, one and all be removed from office without delay. If this were done we would need no legislation. We have plenty of laws with necessary authority if we had men who had nerve and willingness to act. I believe the famine to follow is inevitable and it should be named for the two men most responsible. I have combatted 8 hours a day on farm, but now I am in favor of it. I have always been for big production, now I am for more time to fish, hunt, and other social functions and less crops—no use to raise more crops than can be financed if there is only enough money to finance 50 per cent of crops. Let's cut the crop to suit the cash. Personally, I am tired of making big crops to feed and clothe the

world and go ragged and see my neighbors raise ignorant children that others may have 'plenty.' "

Prominent banker: "The Federal Reserve Board should loosen up on contraction and begin at once to extend credit for the salvation of this country. They now have all the machinery necessary in their charge to give the desired relief demanded by the world. This should be and will be the most prosperous country in the world if credit is extended as it should be. The water has been cut off; the fish are dying; they can't long survive; they must have water to live. Such is the condition of the people, financially—they must have credit again if they ever expect to pay what they honestly owe. Nothing else will do it."

Prominent official in Southern State: "Question 2. It must be remembered that the 'purchasing and debt-paying power' of any business depends on profits. If no profits are made debts can not be made and purchases can be made only by going deeper into debt. So, I would say that, broadly speaking, all debt-paying and purchasing power has been taken away from the farmer.

"Question 20. Very emphatically no. The Government has no moral right to sell bonds under an appeal to patriotism and then discount them 20 per cent at its own banks—or any other per cent. The rediscount rate should be 0 per cent on a valuation of 100 per cent."

Large planter and merchant: "Would suggest that we be given lower freight rates on all bulky agricultural products, whose selling price will not stand high prices. Foreign debts should be collected over a long period and not enforced at once. Government should guarantee at least payment of 50 per cent on all commodity exports."

Prominent merchant: "Unnecessary profiteering of middlemen, including speculation, gambling, holding Federal land banks in litigation. The unreasonable rise in railroad rates. Let the Government stop speculation, gambling, stop men from selling that that does not exist. Remedies: Stop the deflation by Federal reserve banks which has cost this country $25,000,000,000 to $40,000,000,000 in destruction of values in 18 months. Force a fair valuation of railroads of $13,500,000,000 instead of letting them declare dividends on $18,500,000,000 or $5,000,000,000 of pure water. Teach some of these cut-throat speculators that there is a hell and that it is not quarantined."

Large cotton planter: "I think a great part of the trouble was caused by persistent propaganda sent out from Washington as to the necessity of lowering prices on raw materials: by the failure of the War Finance Corporation to function and numerous statements issuing from the Federal Reserve Board as to condition in agricultural districts which they failed to substantiate."

Farmer in Middle West: "The Nation, like a sick man, suffers from a complication of ills. The various doctors in their diagnosis, may lay special stress on this or that particular symptom, each may be in a measure right. The one thing now necessary is the inspiration of confidence in the doctor. This will be brought about by the evidence of some measures of relief. No sane person will expect a miraculous recovery, but the administration of relief so that the indications of returning healthy conditions, will tend to a renewal of general confidence: (1) Stop the downward trend of farm losses and values (loss of blood). Stop gambling in farm products. Assure producers of the ability to secure loans on their products, which will permit them to market in an orderly way instead of being forced to dump at harvest time in order to meet maturing obligations. Abolish the necessity of short time credits for farmers, or make productive paper renewable on only slight increase of interest rate, and make the payment of long time paper attractive by liberal discounts. (2) Make the securing of farm loans for the preservation of the homestead and necessary development and improvement much more liberal, and at rates which will curb the profiteering of the private loan organizations. More power to the Federal Farm Loan and practically unlimited resources should be placed at their command by Government subsidy and liberal legislation. The resource of the Federal reserve banks should be placed behind the Federal farm loan and rural credits organizations."

Prominent cotton merchant and factor: "The President, the Secretary of the Treasury, the Secretary of Commerce, and the managing director of the War Finance Corporation are all desirous of relieving the situation, and so far have done all they could. If the rediscout rate is lowered, and banks will ease up on their demands for liquidation of cotton loans, which they can be induced to do if the Federal Reserve Board will carry out the wishes of the Federal officials named above, it will help the farmer to hold on to what cotton he has left of his old crop and reap the benefit of whatever improvement in prices results from the new supply and demand situation created by the curtailment of the 1921 crop. Congress should authorize the War Finance Board or some other agency of the Government to create a political and credit risk bureau so as to enable the foreign banking corporations organized under the Edge law to function. Until such a bureau is formed exporters can not avail of these corporations

to any material extent. If Congress can do something that will improve the condition of foreign exchange, it will go a long way toward stabilizing the cotton industry, which has learned some hard lessons in the past few years, and now can meet the ordinary difficulties which formerly made it the easy game of piratical marauders."

Merchant and farmer: "Generally, I believe in more business in Government and less Government interference with business, but now that the Government has ruined so many businesses and paralyzed so many others by its deflation and dictative policies, I do not think it ought to de what it can to restore confidence and get the wheels turning again by action along lines suggested by answers to questions. It seems to me morally wrong as well as economically unwise to make agriculture, for instance, try to pay with three pounds and bushels our part of the war debt (as compared with a pound and a bushel when the debt was contracted), and at the same time to so hamper it as regards credit as to make production well nigh impossible."

Prominent official southeastern section cotton belt: "In my opinion, if Congress would make and ratify some peace treaty based upon the armistice and thereby establish mutual trade relations with the countries of central Europe so as to rehabilitate the value of their medium of currency in relation to trade values, and so as to bring the rates of exchange between the countries to some point nearer par; that we would immediately see a resumption of buying in American raw products and a revival of imports from them to us. It costs these people too much in their money to buy our cotton and they realize too small an amount for the potash and other things shipped to us on account of the depreciation of their currency or money values. In other words, we are playing the rôle of master and servant with these countries."

Prominent business man, Mississippi section: "In my opinion the Federal reserve banks should utilize all of their facilities consistent with prudent banking methods to restore confidence and give their assistance in every possible manner in placing all lines of legitimate business on a normal basis.

"In answering the questions propounded in the foregoing questionnaire my answers are prompted by conditions which have obtained for the past 15 months and now prevail in the Memphis district proper, and firmly believe that unless foreign business relations can be established to prewar proportions, in order that there will be an outlet for our surplus agricultural and industrial products, it will be useless and suicidal on the part of the southern farmer to grow more cotton than is actually needed to fill restricted requirements. This would mean virtually the elimination of the cotton crop for the next two years, or until the present supply and the yield from the coming crop can be exhausted."

Planter and merchant: "I think the greatest relief will come from the lowering of the rediscount rate by the Federal Reserve Board to 4½ per cent or 5 per cent. I think the War Finance Corporation can greatly relieve the situation by extending long-time credits to foreign countries that want our raw material. I think the Government could safely issue Federal reserve notes to increase the circulation of currency, thereby increasing credits and stimulating business."

Large farmer and merchant: "I have believed that the motive power that has caused deflation is organized capital. The purpose as expressed in the Hazzard circular, when similar plan was devised in 1864, is 'capital control of labor,' which must be accomplished by control of the volume of currency. We all thought the Federal reserve system a system that would insure an elastic currency to meet the business demand of the country, and that was undoubtedly the intention of the framers, but the administration seems to be like a prohibition act administered by blind tigers. Last year, at Montgomery, when Dr. Todd spoke of the price of cotton, I observed that he could not suppress a feeling of exultation. I now feel that he was fully posted as to the plans that had been put into operation. The money of the country was, in my opinion, very largely borrowed to withdraw it from circulation. The suspension of the War Finance Corporation and raising of discount rates by the Federal Reserve Board was assistant. In my opinion, the quickest way to get relief would be for Congress at once to pay out to the soldiers a cash bonus of about $1,500,000,000. Of course this will be opposed by all interested in contraction. If Congress is anxious to give relief to the country, I think it can best be accomplished in this way."

Prominent cotton grower extreme western belt: "Our situation here is really more desperate than can be told on paper. We can only hope that the eternal justice will prevail and that the producers will be enabled to get profit sufficient to provide for the education of their family. At the present moment his situation is hopeless. There is not a single article that he can produce that will give him any profit. Thousands of the farmers have placed mortgages on their homes to procure funds to use in producing their 1921 crop, and owe other debts that will require two or three years in which to pay, and unless they have the opportunity to get a reasonable profit they are hopelessly bankrupt. Many have already abandoned their homes.

As far as Arizona is concerned you certainly can not make the deplorable condition of the farmers too strong. We are particularly interested in procuring a tariff of 20 cents a pound on Egyptian cotton that is imported into the United States. This of course will affect only the Salt River Valley and the Mississippi Delta. The new tariff schedule provides a 25 per cent duty on imported tire fabrics as most of our cotton is used in the manufacture of automobile tires. This has very direct bearing upon our interest. We simply can not continue to produce staple cotton if we are forced to come in direct competition with the low standards of living prevailing in Egypt. If we fail to secure this duty it means a loss to our community of $10,000,000 on the cotton now on hand and the 1921 crop."

South Atlantic State farmer: "Confidence must be restored the world over and the world must go to work and earn something so they can buy and consume. Demand for all commodities and products must be brought about before we can expect prosperity. Lack of confidence and inability to buy and consume must be removed. Not a bale of cotton produced this year should go on the market at a price under 20 cents, and we should let the world know at once that we will next year plant only 50 per cent of acreage planted this year. That will do more for us than Governments can do except in the matter of providing credits for carrying cotton until it brings a reasonable price."

Merchant and banker: "I was in favor of some deflation, but I think it should have been done gradually. Cotton prices have already been deflated much lower than they should be, and must be increased at once to save the South. Goods we buy have not been decreased in prices in proportion, and they should be deflated gradually."

A prominent national official: "The Federal reserve system is a great piece of constructive financial legislation. It constitutes the mission of a most valuable servant to the banking interests and the people so long as it adheres to the purpose for which it was created, that is, to supply an elastic currency and credits to meet the legitimate financial requirements of commerce, business, and agriculture. As a master, however, it is a failure. What good will it do to boast that we have prevented a panic, that we have a great reservoir full of unused water, while an unchecked fire is allowed to destroy the city? It should grant a rediscount rate not exceeding 4 per cent on Liberty bonds, 4½ per cent on agricultural and commercial paper; agricultural loans should be renewed until confidence is fully restored, markets reestablished and liberal credits should also be extended. The policy of contracting the currency should be reversed. This is certainly justified by the present enormous gold reserve and existing conditions. Relief could be speedily secured by the adoption of such a policy on the part of the Federal Reserve Board.

"As an excuse of the policy of deflation, restriction of credits, and high interest rate adopted by the federal reserve, they constantly refer us to the condition in Cuba and Japan. Why not refer to conditions that existed here before they put on this destructive deflation policy, which was largely responsible for conditions in the countries referred to? In fact, the policy of the Federal reserve has affected financial conditions worldwide. It has absolutely destroyed confidence, and had it not been for the policy of the Federal reserve I am confident that prosperity which had existed for 18 months after the cessation of hostilities would have continued and we would have been in prosperity to-day. Why inoculate your wife wtih smallpox when she is in good health? For fear she might contract the dreaded disease when she is in a half-sick condition.

"The Federal Reserve Board as composed is impracticable, to say the least. The law provides for a representative for agriculture and the other main groups. However, I fail to find such representatives. They have experts from a theoretical standpoint—plenty of theory—but we need some common horse sense. The constant statements issued from Washington concerning high prices made everybody want to sell and nobody want to buy. It created a buyers' panic. I failt to find any provision in the Federal reserve act giving the board authority to intermeddle with prices. Yet these constant statements from day to day have constantly forced down the price of American products and created a typical buyers' panic."

Prominent attorney and large delta planter: "The Federal Reserve Board viewed with alarm the lack of self-restraint on the appetites exercised by its patients, business and agriculture, and last spring decided it was necessary to put these patients on a limited diet and also to let considerable blood by cutting arteries and applying leeches to prevent apoplexy. This treatment, when it commenced having effect, so alarmed the patients that they became panic stricken and took the sleeping sickness. The time to permit a full diet and to sew up the arteries has long since passed. The patient is weak and needs nourishment. The blood letting should be stopped, the arteries sewed up, and the leeches removed. A rediscount rate of not exceeding 4 per cent

on Liberty bonds, 4½ per cent on agricultural and commercial paper, renewal of agricultural loans until the sick patient can regain health, more liberal nourishment through the extension of needed credits from the great supply of gold which has been accumulated, should be promptly given. There is no danger of apoplexy, but great danger of death from weakness produced by this treatment. The patient needs nourishment, diet, and finances to enable him to regain his health, overcome his fright, and restore his strength so he can perform his duties. The accumulation of a great supply of the finest nourishment will not restore his confidence or strength; medicine will do him no good, and he can not spare the loss of more blood. Let him have liberal diets of credits and make the bill very low. He can not afford to pay high prices in his weakened condition. He can not use the diet so it will restore confidence and bring benefits if he is haunted with the fact that he must pay a big bill. Lower the interest rate for the credits so as to enable him to pay for the treatment administered and regain lost ground.

"An ounce of common sense will convince anyone that it will require years to pay the fearful debts which have been unjustly forced upon the farmers and allied business interests as a result of artificial deflation. In fact, these debts will have to be passed on to our children. In justice to ourselves our children, and to the people whom we owe, we must arrange drastic deflation in production so as to counteract drastic deflation in prices, and bring us a price for cotton and other farm products that will enable us to pay the fearful losses which have been forced upon us by deflation in prices. I urge that a systematic campaign for reduction in cotton acreage for the next five consecutive years be arranged without delay; an immediate campaign be started to increase feed and food crops this fall, so as to utilize the lands that must be reduced in carrying forward this campaign, which lands are now planted in cotton. Keep this in mind: We must not only keep production down to the acreage planted this year in cotton, but still further drastically reduce. It is the only possible method we can pursue that will enable us to avoid bankruptcy and finally discharge the debts which we incurred for the production of the 1920 crop, the price of which was deflated before we could sell said crop. The Bible says, 'A man who fails to provide for his own household is worse than an infidel,' so if we fail to reduce acreage for consecutive years (the smallest period of time in which it will be possible to pay the enormous debts which were incurred from the 1920 crop), so as to provide for our household, we are worse than infidels—we are fools and we will be bankrupt. Self-preservation is the first law of nature. Let deflation in production for the next five years be our motto. Prepare binding contracts to be signed by the farmers, get the bankers, merchants, and cotton factors, the extension forces, all to join in the campaign. Not a bit of credit should be extended to any man who fails to deflate his production. This is his duty, both in justice to his family, himself, his neighbors, and to those whom he owes. Let our slogan be a million bale reduction each consecutive year for the next five years. In 1922 we must produce 1,000,000 bales less then we produced in 1921."

PRESSING FEDERAL ADMINISTRATION—CONGRESS AND THE FEDERAL RESERVE BOARD FOR REVERSAL OF PRESENT POLICIES RESERVE SYSTEM AND THE INSTITUTION OF PROMPT AND EFFECTIVE MEASURES FOR RELIEF.

President Wannamaker, with the unanimous sentiment of the farming, general banking, and business interests of the agricultural sections of the country behind him, is now pressing forward to the fullest extent of his power and the influence of the American Cotton Association to secure prompt and speedy relief for this unparalleled crucial situation.

Following the widespread and unanimous replies to the above-published questionnaire, letters have been sent by President Wannamaker to the President and his Cabinet, the governor of the Federal Reserve Board, the Comptroller of the Currency, all Senators and Congressmen of the Southern and Western States, and thousands of bankers, merchants, and farmers, urging their prompt and united influence in behalf of the following proposed plan:

PROPOSED PLAN.

"The simplest method of giving the required relief would be through the Federal reserve banks in the shape of rediscounts of paper secured by cotton, and I think, if possible, this privilege should be given to banks in the cotton States, whether they are members of the Federal reserve system or not; but it should be distinctly understood that these rediscounts are not to have any bearing upon the ordinary accommodation granted by such Federal reserve banks to member banks of the system—

somewhat in line with rediscounts granted on Liberty-loan bonds, which, you will remember, were not counted against the credit of the borrower, or of the bank rediscounting, during the time these bonds were being sold. In my judgment (and I find, as outlined, that it meets the unanimous approval of the judgment of the leading bankers, merchants, business men and farmers in various sections of the cotton belt), if it was announced that the Federal reserve banks were prepared to loan $100,000,000 to the banks of the cotton States, upon customers' paper secured by warehouse receipts for cotton properly insured, at say 80 per cent of its market value, or upon cotton manufactuurers' acceptance of drafts against shipment of cotton for consumption in their mills, then confidence, and with it business, would be restored to a very large extent. All such paper should run from 30 to 90 days and should be renewable during the year 1921, or until markets are opened and confidence is restored; these loans to be made on the basis of 80 per cent of the market value of cotton, which would offer a security equally as valuable as Liberty loan bonds."

If the Federal reserve could be induced to grant this accommodation, as outlined above, their offer to grant loans of $100,000,000 would at once restore confidence and establish a firm market upon a better basis than now exists. It would bring great benefits, not alone to the farmers, but to the bankers, merchants, manufacturers, and, in fact, to every line of business in the South, and be of great benefit to the business of the entire Nation.

"I do not believe that 25 per cent of the amount offered would be taken, because it would be found unnecessary. I wish to emphasize again that it would have to be made clear that these loans would be special and would not be counted in the original accommodation granted by the Federal reserve banks to its member banks. Unless this was done it would prove of no benefit, as the southern banks are so tied up with loans carried over from last fall and winter that they are unable to function in their usual manner and to make loans for current business out of their present resources. Of course, if the loans were made by the Federal reserve banks of the southern territory, these banks would have to rediscount with the other Federal reserve banks, but the whole system is in excellent shape to do this at the present time. They could easily extend many times this amount of credits and still have a gold reserve far in excess of the legal requirement."

If the above plan is given immediate favorable consideration and adopted without delay, the present debacle in business stagnation will be overcome and the country saved from the pending doom of otherwise unpreventable bankruptcy. The Federal reserve banking system is the financial machinery of the Government, and its acts must reflect the sentiment of those in control of the Government over the destinies of the people of this Nation. The Government has financed foreign countries to the extent of $10,000,000,000 for war and destructive purposes. Interest on these enormous loans has been running for several years without payment. This Government refuses to demand payment of either interest or any part of the principal of these foreign loans. With the magnanimity of a Croesus the American Government holds out an open hand of extreme liberality and concession to foreign governments, while at the same time using the unlimited power of its financial machinery and control over the credits and currency of this Nation to blast and wither the hopes, aspirations, and progressive development of the primary wealth producers of this Republic.

The farmers are unable to obtain credits for operating purposes, nor have they a market in which to sell their products, but they are gradually being forced by the Federal reserve system to liquidate their loans, even at the sacrifice of a lifetime accumulation of a home and property. The foreign governments can withhold the payments of their obligations to America and use that money to buy American raw products far below the cost of production and to extend their trade and rehabilitate their industries.

What has become of the American tradition, "A Government for the people, by the people, of the people?" Every red-blooded American, and especially those of the South, should deluge the President and the high officials of his Cabinet and administration, the Senators and Congressmen, with strong and forceful letters urging relief from this continued demanding of a "pound of flesh" by the Federal reserve banking system. The causes of deflation and the deplorable condition of the people as a result thereof is no longer a mystery to be chargeable to the results of war. The people now know what brought about the horrible evils with which they are afflicted, and if their Government be responsible, they should rise up in their might and exercise the freeborn rights of American manhood and demand a fair and square deal at the hands of the Government which exists only at their behest and consent.

EXPORTS OF AMERICAN COTTON.

The study of the exports of raw cotton from the United States for the past few years makes some interesting reading during the present critical situation of the cotton industry.

The following taken from the reports of the United States Census Department gives the exports of American cotton each year since 1912:

	Bales.
1920	6, 598, 347
1919	5, 663, 920
1918	4, 476, 124
1917	5, 739, 009
1916	6, 191, 110
1915	8, 544, 563
1914	8, 914, 839
1912	10, 681, 758

These figures are interesting as a study of the heavy falling off of exports since the World War was declared in 1914 and up to the present time. Fortunately for the South the crops of American cotton produced during the period of 1915–1919, inclusive, were short, owing to adverse climatic conditions, scarcity of labor, etc.

It will be noted that the first sharp drop in cotton exports occurred in the year 1916, with a shortage of four and a half million bales, as compared with exports in 1912. In 1918 the loss was two and a half times below those of 1912. The situation began to improve in 1919 and was getting materially better in 1920 when the world financial crisis came on and practically put a stoppage to the wheels of industry and especially cotton consumption.

In the meantime, while underconsumption has been so conspicuous for the past few years, the surplus of American cotton has been accumulating, especially the lower grades, because of the closed markets in central European countries. If all the world cotton spindles could have been in constant operation and the real needs of cotton clothing supplied there would to-day be a shortage of raw cotton instead of a surplus. This is clearly evident from the fact there has been a lossage in American exports, due to underconsumption since 1914 to the close of 1920, of 28,644,394 bales, as compared with the exports of 1912. Even on the reduced export basis of 8,900,000 bales in 1914 there has been a total lossage in foreign underconsumption of 16,275,961 bales for the years 1915 to 1920, inclusive. This would have wiped out the entire surplus heretofore carried over each year and absorbed every bale of the large crop produced in 1920. With such demand, prices for the raw product would have been correspondingly good.

These facts show that, based on the world's present spindle capacity, without adding another new spindle or loom, that there has been no overproduction of American cotton. The trouble is found in underconsumption during the past few years through the stoppage of millions of foreign spindles, or their operation on short time, due to war and the economic situation which has developed as a result of the war, the contraction of credits, and restriction of exports by governmental agencies.

The Relationship of Supplies to Consumption for the next Twelve Months—Analysis of the Raw Cotton Situation.

The 1920–21 cotton year passed into history on August 1. It has been a year of unparalleled financial suffering to the growers and which recorded a cataclysm in practically all kinds of business, especially in the South and West, never before experienced in the annals of the American Republic. The costly debacle in the inflation of prices of staple farm products, the stagnation of markets and loss of confidence in business is chargeable by leading authorities to the policy of the Federal Reserve Board in the restriction of credits, contraction of the currency, and excessively high rediscount rates of interest. It is reported that the Federal reserve banks and large banks in financial centers have made enormous dividends, while farmers and the business industries of the whole country have suffered the tremendous losses aggregating $25,000,000,000, or more than the total cost of the World War to this country. Comptroller of the Currency, Hon. D. R. Crissinger, presented a profound maxim of truth when he recently stated in an address before Ohio bankers that:

"I can not too emphatically say that I do not believe deflation in currency and credits can go hand in hand with a régime of high interest rates, without imposing great and dangerous hardships upon the people. If that be financial heresy or economic treason, make the most of it."

The above statement on the part of the Comptroller of the Currency was a direct and specific indictment of the policy of the Federal Reserve Board last year and from which the people have suffered untold agony in financial depression. Any man, or set of men, who are so heartless as to deliberately, and with malice aforethought, plunge a nation into such gloom and distress as has happened in this country during the past 12 months, should not be allowed to hold positions of authority in the management of the financial machinery of this Government.

WHAT IS THE PRESENT RELATIONSHIP OF SUPPLIES AND DEMAND?

Secretary Henry G. Hester, statistician for the New Orleans Cotton Exchange, estimates that the total carry-over of American cotton throughout the world on August 1 to be 8,200,000 bales. The United States Bureau of markets estimates the stocks of American cotton on hand in this country August 1 to be 7,429,536 bales. The forecast of production by the United States Crop Reporting Board from the 1921 crop on August 1 was estimated at 8,200,000. The total consumption of American cotton for the past 12 months has been estimated at 10,500,000 bales. Summarizing these estimates, based on supplies and consumption, the following situation is presented:

	Bales.
World supply American cotton Aug. 1	8,200,000
Estimated production 1921 crop	8,200,000
Total supplies next 12 months	16,400,000
Total consumption American cotton last 12 months	10,500,000
Indicated surplus Aug. 1, 1922	5,900,000

The very large estimated surplus of cotton on August 1 is fortunately minimized by the forecast of the smallest production in 1921 for the past 25 years. The heavy reduction in cotton acreage this year and poor condition of the growing crop are the only two factors which prevent the price of spot cotton falling to 5 cents per pound, basis middling. There are margins for corrections in each one of the items embraced in the summary. In the estimated August 1 surplus of 8,200,000, it may safely be assumed that the 24 per cent of untenderable cotton found in the census recount of nearly 4,000,000 bales in June should apply with an equal degree of accuracy to the total supplies of stocks held in this country August 1, estimated at 7,429,536 bales. Deducting 24 per cent of this amount as untenderable, or so-called unspinnable cotton, there is found a net carry over of good tenderable cotton of 5,646,448 bales. At the present monthly increase in consumption of American cotton, it is possible the world consumption of American cotton during the next 12 months will reach 12,000,000 bales. It is also an established fact that heavy losses in the fruitage of the 1921 crop is taking place all over the belt from adverse climatic conditions, small use of fertilizers, and unprecedented damage by the Mexican boll weevil. These damages will doubtless reduce the crop to 7,500,000 bales for 1921. Summarizing these figures, we would have the following forecast for the next 12 months:

	Bales.
Supply spinnable cotton Aug. 1	5,646,448
Estimated production 1921 crop	7,500,000
Total available supplies, 12 months	13,146,448
Total estimated consumption, 12 months	12,000,000
Estimated surplus Aug. 1, 1922	1,146,448

This situation is not only possible from the standpoint of existing conditions, but it is highly probable. The crop is more likely to lose heavily in fruitage from now on than to gain. The law should provide for counting and classifying the grades of tenderable cotton in the surplus on August 1 each year, and all untenderable grades should be counted in a separate class as linters are. The growers are entitled to this information as the total number of all the bales is used as a depressing price factor unfairly by the speculators, the cotton trade, and the spinners.

WHAT SHALL BE THE POLICY OF MARKETING BY THE GROWERS DURING THE NEXT 12 MONTHS IN ORDER TO MAINTAIN A MARKET AT FAIR AND REASONABLE PRICES?

Orderly marketing, as construed by successful business and financial economists, is the marketing of a product to meet the legitimate needs for the commodity at such prices as will pay the seller's cost of production, plus a fair and reasonable profit. This fundamental principle in all lines of business is recognized as legal, fair, and just. The serious difficulty with the cotton growers in conforming to these sound economic methods in marketing is due to the abnormal excess of supplies over the requirements for legitimate consumption and their totally unorganized and noncooperative methods of selling cotton, and further accentuated at this time by their extreme financial weakness, due to an outrageous deflation of prices for cotton in the last 12 months.

However, the recent action of the Federal reserve banks, as a result of the hard and persistent efforts of the American Cotton Association, now insure ample credits for farmers who wish to hold their cotton and market the staple slowly in an orderly manner. This action on the part of the regional reserve banks should be utilized to the fullest extent by the growers through their local banks, and the supplies of cotton now in their hands, and which will be harvested this fall, should be distributed on the markets only as the legitimate trade will absorb the staple at fair and reasonable prices. The periodical dumping of the crop on the market during a few months, which has so uneconomically characterized the past years, will be fatal to prices for the staple under existing conditions.

Congress is also providing a bill which will enable the War Finance Corporation to handle credit exports to the extent of $2,000,000,000. This will stimulate foreign demand and prove of incalculable value in the rapid rehabilitation of the exports of American cotton. This is one time when the growers should hold a stiff upper lip, put their cotton on the market slowly each month and use the financial facilities of the Federal reserve banking system to the limit. They are fully entitled to the fullest liberality of the financial machinery of the Government, and now that this liberality in rediscounts of loans protected by cotton warehouse receipts, has been promised by all the regional reserve banks in the cotton belt, it should be utilized to the fullest extent.

It can be safely announced that the autocratic deflation policy of the Federal Reserve Board had been reversed by the almost unanimous condemnation of the people, and with the gradual restoration of confidence in business, normal conditions will be reasserted. Farmers may contend that they are heavily involved in debt and that their cotton should be sold at prevailing prices, even at continued losses. Creditors and debtors alike should cooperate at this time, as obligations can be met more promptly and fully by gradual sale of the crop and the gradual liquidation of debts than by a dumping process which will only tend to maintain a stagnated market at the lowest level of values.

In the meantime, preparations must be made this fall to sow down a large acreage in small grain so as to be in position to put into effect a more drastic deflation in cotton production for 1922 than was the case in 1921. The guaranty of not exceeding half a crop next year is the only possible hope for the growers to get on their feet again and allow world-wide underconsumption to overtake production. Any other course will prove suicidal and guaranty ultimate bankruptcy for the entire cotton belt for years to come. Study the plan of the American Cotton Association published in Cotton News, August 1, for a four-year sensible system of crop rotation and drastic deflation in cotton production.

REPORTING UNTENDERABLE GRADES OF COTTON EACH YEAR BY THE GOVERNMENT.

It is unfortunate that the official reports issued by the Government on the cotton industry from time to time are not so perfected that the growers and cotton trade generally may not have a better understanding of the facts regarding all phases of the industry. We have two separate and distinct statistical departments at Washington issuing reports on cotton. One is regarded as more or less speculative, while the other claims to deal only in facts. The speculative department is known a the Crop Reporting Bureau of the United States Department of Agriculture, and the department said to deal in facts is the United States Census Bureau. The Crop Reporting Bureau issues monthly reports on the growing condition of the cotton crop from May to October, makes an annual report July 1 estimating the acreage planted in cotton, and an annual forecast of the year's production of cotton about December 10.

All of these reports are more or less speculative because they are based upon the opinions of thousands of correspondents, whose opinions are in turn tabulated and then weighed against the opinions and experiences of the Crop Reporting Board, and the average result given out to the public. Long years of experience in tabulating these

reports have given the board comparatively safe methods to work on and the reports are considered fairly accurate, more so than similar reports gathered and issued by private firms or persons. Consequently, they are regarded as of value by the entire cotton trade, and more or less affect public sentiment in regulating the price of cotton, because the price of spot cotton is not affected by the legitimate laws of supply and demand, but by sentimental speculation.

The Census Bureau gathers the ginning reports and at the end of the season gives out the total crop ginned. It also gathers the amount of cotton consumed monthly in domestic mills; gathers indefinite data on stocks of cotton in this country and foreign countries. This method of procedure enables the Census Bureau to give out data regarding supplies and consumption of cotton throughout the world based upon the best sources of information it can obtain.

TENDERABLE AND UNTENDERABLE COTTON ON EXCHANGE CONTRACTS.

A bale of cotton which is of too low grade to be tenderable under the present Federal cotton futures act is not regarded as a commercial bale to be sold and used for spinning purposes for clothing. All grades of cotton, including linters, are spinnable, but untenderable cotton is regarded in our markets as unspinnable cotton, and is not quoted in the futures markets which regulate the price of spot cotton in the interior.

The Census Bureau in its reports differentiates linters from the ordinary gin bales, but has not heretofore undertaken to classify the tenderble and untenderable grades of cotton consolidated in the aggregate amount of cotton ginned during the season. The growers and the world cotton trade are thus lead to believe that the total of the Census Bureau report indicates cotton that is commercial, tenderable and spinnable.

The supplies of American cotton each year are determined by the amount of cotton bales ginned and not by the character and type of the grades in the crop. The American Cotton Association insisted that an effort be made this year to ascertain the amount of unspinnable or untenderable cotton counted in the supplies and the Census Bureau undertook to gather the information in May. A full recount of the stocks and grades in this country could not be secured because of the absence of specific Federal authority and the indifferent methods of grading cotton, but it was shown that in nearly 4,000,000 bales stored, 24 per cent was estimated to be untenderable cotton, or nearly 1,000,000 bales. If the cotton could have been properly graded and reported we are satisfied that the untenderable grades would have shown a larger percentage. It may be safely assumed that the untenderable grades now held in the United States will easily reach 2,000,000 bales of the whole. This 2,000,000 bales serves as a leverage to bolster up supplies of spinnable cotton and to hammer down prices because of that fact. Untenderable grades should be eliminated from the supplies of good spinnable cotton, the same as linters.

THERE SHOULD BE THREE CLASSES OF COTTON IN ANNUAL REPORTS.

The annual reports of the Census Bureau on the cotton crop should be divided up into three separate and distinct classes, namely:

First. Total number bales of tenderable grades.

Second. Total number bales of untenderable grades.

Third. Total number of linters.

With this information based upon official investigation and report, the cotton trade and the spinners would have an accurate knowledge as to the amount of commercial or good spinnable cotton held in stocks or carried over at the end of each cotton year. It is not by any means a difficult undertaking to gather and assemble this information. The Director of the Census Bureau admits that it can be done if the proper authority is given and the necessary appropriation made by Congress. A box of Government standard grades should be placed in each public ginnery. The cotton bales should be sampled, graded, and the grade marked on each sample or bale after comparing same with the Government standards. If a grade drops below the standard grade that is untenderable, such sample or bale should be marked "untenderable," and recorded on the gin records. If the semimonthly reports of ginning could be made out showing the number of untenderable grades, this would give the Census Bureau correct data on the matter before the cotton reaches the warehouse. Every bale of cotton that reaches a warehouse for storage or sale, the receipt issued to the owner of same, should show the grade according to the Government standard, and if the grade falls below the tenderable grades, the receipts should specify "untenderable" on the warehouse records so that such information would be promptly available to the Census Bureau.

TOO LITTLE ATTENTION GIVEN TO COTTON IN PRIMARY MARKETS.

There is too much indifference and inattention paid to the marketing end of cotton so long as it remains in the hands of the farmers. Expert business methods are not applied to the handling of the staple until it passes from the control of the growers. The farmer is as much entitled to know the true grade of his cotton in advance of offering the staple for sale as the buyers. The bankers should know the grade and staple of the lint which is put up as collateral to secure loans.

The Government should ascertain and report on the tenderable grades in the supplies of American cotton each year, so that the entire industry will know just exactly what the available supplies of raw cotton for good spinnable purposes are. Cotton will never bring its true value to the growers until these economic matters are straightened out and the proper protection given to the growers in the sale of the staple. The power of the speculators to control the markets for spot cotton will never be curtailed or abridged until more definite facts regarding the supplies of tenderable cotton are ascertained and promulgated by the Government. The legitimate laws of supply and demand will never function in the primary markets of this country until cotton is orderly sold by the growers through a longer period of time and the fatal policy of dumping the staple on a congested market during the harvesting period is checked. The cotton growers will never realize for themselves a profitable price for cotton until after the present primitive and wasteful practices so notoriously bad in the matters of ginning, baling, warehousing, financing, and marketing at interior points are obliterated and modern economic and efficient methods are employed. Cooperative effort is the first essential to success. Nothing can be done by each individual pursuing the even tenor of his way. A farmer acting alone in the primary markets is easy money to those who first get their hands on his staple. When farmers come together for the proper solution of their marketing difficulties and post themselves upon the real economic business of selling, they will be astounded at the helpless position they have been in all these years and begin at once to right these trade wrongs from which they have been such fearful sufferers.

There are innumerable economic wrongs to be righted. Leadership through the medium of a strong and forceful organization is imperative for success. This leadership has been found in the American Cotton Association, and it will rightly solve these problems for the growers and their allied business interests if the proper support is given to its maintenance. With strong and forceful cooperative marketing associations in each State and the work of the American Cotton Association in full harmony and fighting for economic reform in every department of the raw-cotton industry, there can be no question but that hundreds of millions of dollars will be saved to the growers in the future and the industry revolutionized along modern business and profitable lines.

PLAN NO. 1.

(1) Three-fourths of all open lands to be devoted to food and feed crops and to pasturage for live stock.

(2) One-fourth of the cultivated land to be planted in cotton, well fertilized and worked, so as to produce the best yield under the most economic conditions of labor and other expenses.

(3) Encourage the rapid organization of State-wide cooperative marketing associations for handling cotton and other farm products.

(4) Adopt economic reforms and efficiency in the future baling, warehousing, financing and marketing of the cotton crop, upon the most approved and advantageous modern methods of orderly marketing.

(5) Induce every cotton farm in the South to become, first of all, self-sustaining and so control the production and sale of cotton as to force the consuming world to pay the growers a profit on the production of each and every bale of the staple.

PLAN NO. 2.

Petition the governors of the States of North Carolina, South Carolina, Georgia, Alabama, Mississippi, Louisiana, Arkansas, Oklahoma, Tennessee, and Texas, to at once call into special session the general assemblies of their respective States, to enact a law prohibiting the planting of any cotton in any of the States named in 1922, such laws to be enforced under the broad police powers of the States, for the purpose of destroying the cotton boll weevil and the pink bollworm, the former insect having spread over 77 per cent of the entire cotton belt of the United States, such laws to be effective in each State named from January 1, 1922, to January 1, 1923, provided each and all of the cotton States named in the petition shall pass a

similar law. The cotton farmers of the small producing States of Virginia, Florida, and Missouri will be appealed to to unite with the larger cotton States in cutting cotton out for 1922.

Mr. WANNAMAKER. The following day letter was sent to the chairman of this commission by me under date of August 8, 1921 [reading]:

ST. MATTHEWS, S. C., *August 8, 1921.*

Hon. SIDNEY ANDERSON,
Chairman Joint Commission of Agricultural Inquiry,
Washington, D. C.

Newspapers carry statement that Gov. Harding testified before Agricultural Commission that I requested Federal Reserve Board to rediscount cotton paper for 32 cents per pound when middling cotton was selling for 28 cents per pound in New York. Please advise if such statement was made by Gov Harding. No such request was ever made by me. Removal of War Finance Corporation after farmers had incurred large proportion expense of producing 1920 crop, thus removing possibility of exporting staple crops was a commercial crime rendering it impossible to combat artificial deflation policy. Keep in mind fact that 64 per cent American cotton crop has to be exported. Policy of Federal Reserve Board absolutely in violation of intent and purpose for which Federal reserve system was created. Contraction of currency, high rediscount rates, and restriction of credits following removal of War Finance Corporation resulted in creating most disastrous commodity and buyers' panic not only nation wide but world-wide ever recorded in history. It has paralyzed agriculture, stagnated commerce, and imposed fearful penalty upon civilization.

Concerning request to which Gov. Harding refers, which request was that Federal reserve rediscount paper secured by staple agricultural products warehoused and insured for safe, sound percentage of market value, such request not being limited to cotton but to all staple agricultural products and to safe, sound agricultural paper, had War Finance Corporation not been removed distressing conditions in agriculture which you are now investigating would not be existing to-day. Relief can only be secured, confidence reestablished, and business revived by immediate reversal of this policy. Lowering of rediscount rate to 3½ per cent on Liberty bonds and outside of 4½ per cent on agricultural and commercial paper and more liberal extension is not only national but world-wide necessity. At no time since formation of Federal reserve have I ever requested or advocated that Federal reserve rediscount in excess of 80 per cent of market value of cotton, said loans secured by maker's notes, warehouse receipts, and cotton fully insured and margins to be fully maintained at all times. Please read this telegram to your commission. Please answer.

J. S. WANNAMAKER,
President American Cotton Association.

Representative Anderson's reply is as follows [reading]:

WASHINGTON, D. C., *August 9, 1921.*

J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

Gov. Harding's statement as to request at conference of cotton men before Federal Reserve Board was as follows:

"In other words, they wanted us to sanction a loan of 32 cents a pound on cotton which was worth at that time normally on the market, I think, 28 cents a pound. I think the chart will show. And it went to 25 cents a pound and then went down every month until it hit the bottom."

SYDNEY ANDERSON, *Chairman.*

I again wired the chairman of the commission as follows [reading]:

ST. MATTHEWS, S. C., *August 9, 1921.*

Hon. SYDNEY ANDERSON,
Chairman Joint Commission on Agricultural Inquiry, Washington, D. C.

Your telegram of even date. Complete stenographic report Washington conference to which Gov. Harding refers is proof positive that his statement:

"In other words, they wanted us to sanction a loan of 32 cents a pound on cotton which was worth at that time normally on the market I think 28 cents a pound," is absolutely incorrect. No such request has ever been made of Federal reserve nor could we be induced to make such unreasonable request, which lacks first element of sound banking and business. Request at September Federal reserve conference

was read to full board with Gov. Harding presiding, explained by section, and then presented to Gov. Harding personally in writing, and most assuredly should be in his files. Stenographic report of conference proves conclusively no such request as stated by Gov. Harding was made. Only request made was that necessary renewals be granted on loans made on agricultural paper to enable gradual and orderly marketing of crops and on which credits were based either by renewal of agricultural paper or substitution therefor of commodity-secured paper where expedient or by rediscounting on cotton in warehouse with proper receipts as provided in section 13, Federal reserve act. Had our request been granted, it would have brought benefits to agriculture and commerce nation wide, and distressing conditions confronting us to-day would not be one-tenth fold as serious.

Gov. Harding's statement appearing in press, which statement is confirmed by your telegram of to-day, has aroused indignation of officials and members of our association throughout cotton belt, who strenuously protest over incorrectness and injustice of statement and insist it has done serious injury to association and officials, including myself, and urge I immediately request Gov. Harding to make correction of said erroneous statement to commission and through press. I therefore telegraphed Gov. Harding urging that he refer to written request made at September conference, copy of which was filed with him at the conference, and immediately issue correction both in justice to himself, myself, and the association. Gov. Harding has just replied by telegram as follows:

"My statement referred to resolutions passed at Montgomery conference September, 1920, with reference to market value of cotton at time these resolutions were presented to board meeting here on September 14. Think you will be satisfied when you see full report of proceedings that I did not misrepresent you. Am not responsible for newspaper accounts."

I am now telegraphing him a second request for correction based upon written request of September conference, of which I hold stenographic report and copy of which was filed with him and should certainly be in his records. If Gov. Harding issues correction please telegraph me copy of same. If he declines to promptly make correction as requested I then request that commission permit me to furnish statement for purpose of keeping records straight supplying them with correct facts and undoing the injustice that has been done us. Please read this telegram to commission. I also request that you make this telegram and my telegram of 8th on same subject part of official proceedings of investigation.

J. S. WANNAMAKER,
President American Cotton Association.

I will read to the commission a letter from the Federal Reserve Bank of Richmond, dated June 30, 1921, and addressed to Banks & Wimberly Co., St. Matthews, S. C. These letters are typical of similar communications referred to my attention from various sections of the cotton belt. [Reading:]

GENTLEMEN: The Federal Reserve Board, at Washington, publishes monthly the Federal Reserve Bulletin, which contains a report on general business conditions throughout the country, and the chairman of the board of directors of each of the 12 Federal reserve banks is expected to furnish a statement as to these conditions in his district.

In the preparation of our report for this district we call on a number of banking, agricultural, business, manufacturing, and farming authorities for general information on basic conditions.

We would appreciate a brief report from you as to conditions in your particular line, also any other lines as far as they—incidental to your operations—come under your observation.

Whatever you may write us will be considered confidential, and under no circumstances will names be mentioned in connection with the published report, which will be a composite view of the general situation in this district.

We will appreciate a reply to reach us not later than the 12th.

With thanks for your attention, yours, very truly,

CALDWELL HARDY,
Chairman of the Board.

NOTE.—The fifth Federal reserve district includes: Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina.

The vice president of Banks & Wimberly Co., St. Matthews, S. C., replied to that letter as follows [reading]:

JULY 2, 1921.

Mr. CALDWELL HARDY,
Chairman of the Board, Federal Reserve Bank, Richmond, Va.

DEAR SIR: Your letter of June 30, in which you ask for a brief report from us as to conditions in our particular line, also any other lines as far as they—incidental to our operations—come under our observation.

The purchasing and debt-paying power of a large portion of our population has absolutely been destroyed, as a result of the deflation policy of the Federal reserve system. This policy has paralyzed our agriculture and stagnated our commerce, and, unless relieved, eventually the consumers will pay a fearful penalty. The policy has, of course, resulted in forcing down prices of agricultural products. This has always been the case, following great wars in which we always have great inflation. Where credits have been restricted and rates of discount raised it has always resulted in bringing about artificial deflation and forcing down prices, and has brought tremendous losses.

As the result of close study of the situation we find that throughout the agricultural sections of the South practically the same conditions exist. The farmers are unable to secure credits of either money or goods with which to produce, except in a limited way. They are loaded with debts which were incurred on the peak of inflation in the spring of 1920 for the production of that crop. We had 18 months of prosperity and business activity, following the cessation of hostilities, and the present distressing financial conditions therefore are certainly not the natural aftermath of the World War, but the result of the deflation policy as outlined above.

Millions of people in Europe and Asia who own lands, forests, mines, and factories, and who are an industrious people, are in desperate need of our raw products, while on our side, as a result of this policy, we are being smothered by the very products which they are needing so badly. We are suffering, not from overproduction but from underconsumption. There are no markets for staple products except in a very limited way and at prices of less than one-third the cost of production.

Unless these conditions are relieved through a lowering of the rediscount rate to, say, 4 per cent on bonds (this being the understanding of the people who purchased the bonds) and 4½ per cent on agricultural and commercial paper, through a renewal of agricultural loans until markets can be opened and confidence restored, and through more liberal extensions of credits, conditions will grow steadily worse and a large portion of the agricultural section of the Nation will face universal bankruptcy.

In our immediate section there has been a drastic reduction in cotton acreage; in fact, in all agricultural production. We find that the same condition exists throughout the State. The report just issued by the United States Agricultural Department shows a reduction in cotton acreage of 28.4 per cent and a drastic reduction in the use of fertilizers, showing that the cotton yield of this year's crop will be the smallest in the last 25 years. In fact, even with ideal weather conditions, we can not expect it to be otherwise, due not only to the reduction in acreage, but also on account of the distressing financial conditions, of the fertilizers used, there was not only a drastic reduction in tonnage, but only the cheapest material was purchased by the farmers.

In my humble judgment confidence can only be restored and the present conditions remedied by an immediate reversal of the policy which created them. A lowering of the rediscount rate charged by the Federal Reserve Board to 4 per cent on bonds and to 4½ per cent on agricultural and commercial paper, renewal of agricultural loans until confidence can be restored and markets opened, extension of credits based upon credits justified by the gold reserve, we view as a world-wide necessity.

We beg to remain, very respectfully,

T. A. AMAKER, *Vice President.*

On July 7, 1921, the Federal Reserve Bank of Richmond addressed the following letter to me [reading]:

DEAR MR. WANNAMAKER: We have received your letter of July 5, together with carbon copy of your letter to Gov. Harding of the Federal Reserve Board, to whom you have sent my letter of July 1 with the carbon copy of your letter to me. It is so perfectly evident to me and to other officers of this bank that the deductions which you have drawn from our letter are absolutely unwarranted that we can not help feeling that you have read that letter in the light of preconceived ideas as to the policy of the Federal Reserve Bank of Richmond rather than a plain understanding of the very plain statements in the letter itself.

In the first paragraph I outlined your general situation with respect to your loans from this and other banks. These figures, as you point out in your letter, do not agree with your records, but you yourself account for the difference by remarking that your statement is as of July 2, while mine was made up as of June 25. According to your

own showing the differences are immaterial. In the second paragraph I expressed the opinion that this expanded condition could not continue indefinitely. Do you really think that it can? Are you prepared to maintain that from now on, month after month and year after year, you yourself, as president of your institution, would like to continue borrowing from the Federal reserve bank five times as much as your share of its total credit resources? Continuing, I made the suggestion that unless the credit situation, that is to say the situation between you and the people to whom you have loaned money, has gotten entirely out of your control you "should be in a position to give us some idea as to when liquidation, or at least partial liquidation, can be reasonably expected to begin with you, and the probable extent to which you will be able to liquidate this fall." If you were lending a man approximately quarter of a million dollars, wouldn't you feel that you had a right to ask him a modest question like that?

We now come to the last paragraph, in which I advised you that notwithstanding the fact that we have long ago adopted the policy of requiring a directors' guaranty from bankers whose borrowings are in the neighborhood of five times their normal discount line, we have never asked you for such a guaranty, but that if circumstances compelled you to increase your borrowings from us, or, in fact, if you can give us no idea as to when there will be a reasonable prospect of your being able to reduce, we would have to apply the rule to you. What does such a guaranty (and we have a number of them in our files) amount to? Simply this: When the directors of a certain institution have gotten their bank in such a condition that it will have to require, not for seasonal expenses, but month after month if not year after year, an amount five times as large as we could lend to any member bank were all borrowing at the same time, and that bank has sent us paper bought upon the judgment of those directors and certified to by the officers as eligible and good, and when the payment of the paper is still further assured by the deposit of marginal collateral (of which we hold 50 per cent in your case), we ask the directors to guarantee us against ultimate loss on account of our extraordinary advances to the bank, is this really making an unreasonable request? Is there anything about such a request to warrant your assumption that we are requiring you to force your borrowers to sell cotton at a loss, and still further to force your customers who are not borrowers to sell their cotton at a loss?

Frankly, we can not help feeling that the cotton situation must have gotten on your nerves to such an extent that any letter we could possibly have written to you would have appeared to you as an imperative demand to sell cotton. I venture to say that we know just as much as you do about the condition of the cotton market, and we realize as fully as you realize the futility to attempt to create a market by offering a large quantity of cotton for sale without any visible buyer. We are of the opinion that the holder of cotton who has an opportunity to sell and fails to embrace the opportunity may have a chance to call himself a fool later on, but we certainly never require to do what we know perfectly well they can not do.

Now, Mr. Wannamaker, I am going to tell you what I think is your whole trouble. You have written us a great many letters, but, as far as I know, you have never been to see us. Take a couple of days off at the first opportunity and come up and pay us a visit. If you accomplish nothing else, you can find out exactly how long our horns are and whether we breathe fire and brimstone or not when we talk.

With kindest regards, and feeling sure that one visit to Richmond will put you in a very much better frame of mind with respect to the Federal Reserve Bank of Richmond, I remain,

Very truly, yours,

CHAS. A. PEPLE, *Deputy Governor.*

On July 11, 1921, I wrote the following letter to the Federal Reserve Bank of Richmond [reading]:

Hon. CHARLES A. PEPLE,
Deputy Governor Federal Reserve Bank of Richmond, Richmond, Va.

DEAR MR. PEPLE: Your letter of the 7th instant has received our very careful attention. It was our desire, as explained in our previous letter, to cooperate with you in every way possible. We explained that by forcing the sale of cotton we could retire every dollar due the Federal Reserve and every dollar due to other banks.

We note that you state in your letter: "I venture to say that we know just as much as you do about the condition of the cotton market and we realize as fully as you realize the futility to attempt to create a market by offering a large quantity of cotton for sale without any visible buyer. We are of the opinion that the holder of cotton who has an opportunity to sell cotton and fails to embrace the opportunity may have a chance to call himself a fool later on, but we certainly never require people to do what we know perfectly well they can not do."

Since this letter was written cotton has advanced some 6 cents per pound. As result of similar letters to this, many producers of cotton were forced to dispose of their cotton, regardless of the fact that there was no legitimate demand for same and regardless of the fact that prices were less than one-third of the cost of production, thus forcing upon them fabulous unnecessary losses which will burden them for years to come, and in many cases make a most serious effect upon not only the producer himself but upon many lines of industry to whom he is indebted, and in many cases resulting in unnecessary bankruptcy to business institutions as result of the losses thus forced upon them.

The cotton situation has not "gotten on my nerves" near as much as it has gotten upon the finances of my friends and myself. We can only sell it in a limited way for about one-third of what it cost to produce it, on account of the deflation policy which was put into force after the expense of production had been incurred for the most costly crop ever produced. I do not claim for one minute that I know one-tenth part about the condition of the cotton market that you all do, and, based upon your statement that "the holder of cotton who has an opportunity to sell and fails to embrace the opportunity may have a chance to call himself a fool later on," it means that matters will certainly grow more serious instead of improving as indicated by Gov. Harding in his recent statement in which he took the position that we had reached the turning point and that matters are on the up-grade and urged the closest cooperation between banks and their customers and urged that they not attempt to force loans on agricultural commodities. To sell cotton at the present price would mean that the producer would get about one-third of the cost of production, and yet, according to your statement "if he fails to embrace this opportunity he may have a chance to call himself a fool later on," I can not feel that we would be justifiable in advising our customers to sell their cotton, and certainly not justifiable in forcing them to sell under present conditions.

As explained in our previous letter, we have a record of 35 years with a total loss of $0. The success of our bank has been due to the fact that we have cooperated to the fullest extent with our customers, and were we to-day to break this rule and attempt to influence or force them to dispose of their cotton under existing conditions we would most assuredly run the risk of incurring their displeasure, losing business, and making enemies out of friends, especially so if it should turn out that the market would advance after they were forced to sell so that they could dispose of their cotton at a price that would at least help them to dispose of a part of the losses that it was necessary for them to incur.

We have always made it a rule to have our customers clear their loans from time to time. We consider it extremely bad policy to continue to renew, and have always practiced what we preach, and we have, therefore, always made it a rule to clear our loans and rediscounts. However, under the present conditions which have been brought about as result of deflation in prices, the producer being without a market except in a very limited way at about one-third of the cost of production, I feel that you will agree with me that it is necessary under these conditions to make exception to this rule. Just as soon as matters become anything like normal again, and it will certainly be impossible for conditions to remain as they are indefinitely, then our customers, as markets open up, can commence disposing of their products clearing their obligations with us and we can commence clearing with you and can reestablish the rule that we have maintained for over a quarter of a century.

Some of our very best customers, members of our board of directors, are among our very best depositors, a number of whom are carrying quite an amount of cotton on which they have not a dollar borrowed. We have always made it a rule to keep our directors fully posted and have them take an active part in the affairs of our bank. They are fully posted on general conditions. What effect would a request upon them to indorse for our bank have? A number of these directors have been connected with this institution since its organization over 35 years ago; they have passed through all the trying periods; a request upon them to indorse on the grounds that you had insisted that this course be taken would most assuredly be a serious mistake; it would undermine their confidence in the institution of which they are directors, and regardless of every safeguard we could throw around the matter, information would leak out to the general public that the Federal Reserve had required the board of directors of the St. Matthews National Bank to indorse their paper. What effect would this have upon the very best customers we have? If we wished to destroy their confi-

dence, we could not proceed in a better manner, and God knows confidence has already been destroyed to a far too great an extent.

The capital of our bank is $160,000; surplus, $55,000; undivided profits, $7,872.76; total of rediscounts we have with you, $224,920.76; borrowed money, $120,000; in addition to this, we have with you on deposit, on which there is nothing borrowed, United States bonds amounting to $34,800. In recent published statements from banks as of condition on June 30, 1921, we have checked scores of banks whose rediscounts and borrowing lines are far in excess of ours. If all of your paper is as safe as paper you are carrying for us, then the Federal reserve will pass through the deflation period without a dollar's loss. There is not the remotest necessity of adopting the course you suggest. As explained in our previous letter, by forcing sales of cotton we can pay every dollar of obligations we are due you and every dollar we are due every other institution and, if it has reached such a point where it is necessary to discharge these obligations or adopt such a drastic and unnecessary course as the one outlined above, why, then, it would be a part of wisdom for us to choose the lesser of the two evils.

I note that you state that you feel our whole trouble is that I have written you a great many letters but so far as you know have never been up to see you. An examination of our files fails to bring to light the fact that I have written you a great many letters. I have not had an opportunity of running up to see you since the organization of the Federal reserve; since its organization I have been desperately busy, first, in war activities, in addition to my regular line of business. In addition to other war activities, our bank took charge of every single, solitary war drive, and an examination of the records will show that our county was put over and stood near the top in each and every drive as result of work done by officials and directors of our bank, our bank being headquarters for each and every one of these drives, and you will find that our officers and directors liberally subscribed in every drive for bonds, stamps, etc. In fact, we disregarded earnings and considered service our duty during this entire period.

Since the cessation of hostilities I have been desperately busy, and since the commencement of the deflation period last July, I deemed it my duty to devote every ounce of my effort, time, and energy for the purpose of in every way possible protecting ourselves against same. In addition to this, the other work in which I have been engaged requires almost my undivided attention.

Just as soon as an opportunity is afforded I shall accept same and run up and pay you a visit; however, I feel that you are doing both yourself and myself an injustice when you state: "I can find out exactly how long your horns are and whether you breathe fire and brimstone when you talk." I have had the pleasure of meeting you on several occasions and in your making this statement I am doing myself the honor to feel that you do not make the statement upon the impression formed of me, but that on account of your multitude of duties, you have overlooked the fact that we have previously met, and, when I have an opportunity to visit you, if I do not accomplish anything else I will succeed in convincing you that I have never entertained any idea that "you have horns or that you breathe fire and brimstone when you talk."

I try to be always perfectly frank. The impression that I formed as result of our meeting and the addresses that you made caused me to hold a very high regard for you. I consider the Federal reserve banking system one of the best pieces of constructive legislation that has been put on our statute books for the last half century. I had the honor of playing some small part in various meetings and hearings which were conducted for the formation of this act and was closely associated with and claimed a warm friendship for the prime movers and framers of the act. I am personally acquainted with and have been closely associated with and claim a warm friendship for practically all the main officials of the Federal reserve system; it is a great piece of constructive legislation, as stated above. As to the policy of the Federal Reserve Board, for little over a year, or, since the commencement of the deflation period, in my humble judgment, it has been a fearful blunder. This policy is largely responsible for conditions to-day and has created just what the Federal Reserve Board was supposed to prevent; confidence has absolutely been destroyed and the debt-paying and purchasing power of a large proportion of our population has been destroyed; everybody wants to sell and nobody wants to buy; there is no market for agricultural products, except in a limited way, at about one-third of the cost of production. However, I feel that Gov. Harding is correct in his analysis of the situation; that we have passed through the worst stages and have reached the turn in the lane, and that conditions will commence to improve. Restoration of confidence, which will destroy the buyer's panic, and reopening of markets will enable our customers to commence to dispose of their products and discharge their

obligations with us and we can in like manner discharge our obligations. However, it will, of course, require some little time to do this.

Deflation should never have started except based upon the great law of supply and demand, and orderly deflation based upon this rule would have required a lapse of years.

As stated above, I hope to have the opportunity to run up and see you, and I regret very much that I have not had an opportunity of visiting the Richmond district long before this. Strange to say, however, I have had the pleasure of visiting and holding conferences with practically all of the reserve districts located in the South with the exception of the district in which I am located. It is barely possible that I may go to Washington the last week in July, and if so, I will take this opportunity of calling on you on my way through Richmond.

Assuring you of all good wishes, I am, yours, very truly,

J. S. WANNAMAKER,
President St. Matthews National Bank.

I would now like to read a letter addressed to Hon. George J. Seay, governor Federal Reserve Bank, Richmond, Va., from Banks & Wimberly Co., dated July 23, 1921. [Reading:]

DEAR SIR: We received a letter dated June 30 from Mr. Caldwell Hardy, chairman of the board, in which he informed us that the Federal reserve at Washington publishes monthly the Federal Reserve Bulletin, which contains a report on general business conditions throughout the country, and the chairman of the board of directors of each of the 12 Federal reserve banks is expected to furnish a statement as to these conditions in his district; and that in the preparation of your report for this district you would call upon a number of banking, agricultural, business, manufacturing, and farming authorities for general information on basic conditions.

In his letter, Mr. Hardy stated:

"We would appreciate a brief report from you as to conditions in your particular line, also any other lines as far as they—incidental to your operations—come under your observation. Whatever you may write us will be considered confidential, and under no conditions will names be mentioned in connection with the published report, which will be a composite view of the general situation in this district."

We replied to this letter on July 2. Much to our surprise we received a letter from you dated July 11 in reply to ours of July 2, which letter was written by request of the chairman of your board, Mr. Caldwell Hardy, and required no reply.

We are amazed to-day to be called upon by bankers who state that you have furnished them with printed copy of our letter of July 2 to Mr. Hardy, which letter was furnished at his request and which he stated in his letter would be treated confidential. A number of the bankers inform us that you have sent them a printed copy of our letter and also of yours of July 11, and that it is their understanding that this correspondence has been sent broadcast. We have been informed by a number of our banker friends at St. Matthews and elsewhere that as soon as they read copies of letters furnished by you to them above referred to they recognized that the letter was written by us, although no names were mentioned, and that realizing that our letter was written in reply to the inquiry of June 30 with the understanding that such reply was to be considered confidential, they felt it their duty to call our attention to the manner in which the matter had been handled.

We will not have the remotest objection to the publication of a letter from us to you and your reply thereto and a wide distribution of same, provided such was the understanding when the letter was furnished. We have no method of ascertaining the mailing list to whom your letter was addressed. While we have no desire to enter into any controversy over this matter, still we do feel that the manner in which the matter has been handled by you is entirely unfair and unjust to us, and that we should be furnished an opportunity to reply to your letter of July 11; that you should publish this reply and mail it to the same parties to whom you mailed our former letter of July 2 and your letter of the 11th. In addition to your having our reply to your letter of the 11th printed and circulated, we will be very glad to have you release same to the press.

We consider the Federal reserve system a wonderful banking system, and in our reply we shall make it clear that we are, and always have been, supporters of the Federal reserve system. It is our understanding that the Government and its machinery is a trust, and the officers of the Government and its machinery are trustees, and both the trust and the trustees are created for the benefit of the people. A panic under the Federal reserve system should be impossible. Conditions existing to-day should not be possible under the operation of the Federal reserve banking system.

Before writing you this letter we consulted with a number of bankers and business men in various sections of the State, and without exception they take the position that the manner in which the matter had been handled was an injustice to us, and that the above request on our part was perfectly reasonable, and they felt it was as little as we could ask and were satisfied that this request would be granted; that our letter replying to yours of the 11th should most assuredly be mailed out by you to the entire mailing list to which the former letter was sent. We will consider it a great privilege to have the opportunity of replying to your letter of the 11th and submit both letters to the public and abide by their judgment.

Please let us have a prompt reply, and oblige, with best wishes,

Respectfully, yours,

BANKS & WIMBERLY CO.

Under date of July 25, 1921, the following letter was addressed to Banks & Wimberly Co., St. Matthews, S. C., from the Federal Reserve Bank of Richmond [reading]:

GENTLEMEN: I am in receipt of your letter of the 23d and am surprised that you feel aggrieved that we should have given publication to the matter contained in your letter referred to. You quote Mr. Hardy's letter as stating:

"Whatever you may write us will be considered confidential, and under no conditions will names be mentioned in connection with the published report."

We could make no report at all if we did not give the substance of the communications received in reply to our inquiries, and in every report we embody in some form or other the substance of the replies sent to us: that is the purpose and value of the report. In some cases we quote literally from reports sent us. If therefore we had quoted your report at length in our trade letter, withholding the name, we should not have violated the proprieties in any way.

But your communication was of such an interesting nature and was so direct and accusatory that we felt that it called for special treatment and a specific answer, without giving either names or locality, and that both letter and reply were of public interest. In treating it that way, we had not the least feeling that we were abusing any confidence, and we do not feel so now. There was nothing in our published reply or in your letter, as published, which could locate the writer, except by State. I assume that you must have exchanged your views with or submitted your letter to those bankers who advised you that we had furnished them a printed copy of your letter, otherwise I do not see how they could have identified you as the writer.

Your letter was in some respects typical of many criticisms which have been made against the operation of the Federal reserve system, and we thought the opportunity should be taken to reply to those criticisms in a way which would, at least, reach the bankers of this district. Your letter was much more than a report upon conditions in your particular line and in your locality. It was a direct accusation that the operation of the Federal reserve system was responsible not only for the conditions which prevail in your locality (as you see them), but for country-wide depression, and for destruction of the purchasing power of a very large proportion of the South and of the country at large.

It would not have been possible, as it seems to us, for anybody to have identified your letter unless they had been familiar with it, and nothing in our communication gave any evidence of the identity of the writer. It was, however, the desire to counteract the dissemination of views of that nature, and to give information which, in our judgment, would certainly refute them, that moved us to publish the correspondence. with all evidences of identity removed, thus treating it in a wholly impersonal way.

If you desire to reply to the letter in the same way in which our answer was written, that is, to combat our arguments and maintain, if you can, the views expressed in you. first letter, we will give publication to it as a reply to arguments made by us against your original letter, and will publish it either with your name or without your name as you desire, and distribute it as we distributed previous correspondence. We will mail it together with both original letters, in order that you may have the last word. We take for granted that nothing will be in your letter, which you may desire us to send out, on the subject of the propriety of our sending out the correspondence, which I am sure will be removed entirely by this letter; but that the discussion of the subject including your very grave charge against the operation of the Federal reserve system and our answer thereto and your reply to our answer, will be wholly upon the merit of the matter.

Yours, very truly,

GEO. J. SEAY, *Governor.*

The following is a letter written by Banks & Wimberly Co. to Hon. George J. Seay, Federal Reserve Bank, Richmond, Va., dated July 30, 1921 [reading]:

DEAR SIR: Your letter of the 25th instant has received our attention.

In Mr. Hardy's letter he stated that he wished this information for the purpose of making a report and did not mention that he wished it for the purpose of publishing the letter. It is our contention that the letter was written based upon Mr. Hardy's letter stating the purpose for which it was to be used—that is, for making up report and that it was to be used confidentially.

We feel that you should have written us and stated that you desired to publish the letter and circularize it instead of using it for the purpose for which it was requested, before adopting this course.

We note that you state:

"There was nothing in our published reply or in your letter, as published, which could locate the writer, except by State. I assume that you must have exchanged your views with or submitted your letter to those bankers who advised you that we had furnished them with a printed copy of your letter, otherwise, I do not see how they could have identified you as the writer."

In this you are entirely mistaken. We did not exchange our views with or submit our letter to any of these bankers. The bankers recognized the letter as coming from us. It was stated that the letter was from a mercantile firm in South Carolina; that there were two banks in the city from which the letter was written. The bankers are fully posted as to our views concerning the policy of the Federal reserve, so that with this information, they readily recognized that we were the authors of the letter.

We wrote the letter in reply to a request from the chairman of the board. We gave him our frank and unbiased judgment; we felt that this was what he desired; that he desired same for the purpose as stated—for preparing report—and that said letter would be used confidentially.

We note that you state:

"Your letter was in some respects typical of many criticisms which have been made against the operation of the Federal reserve system, and we thought the opportunity should be taken to reply to those criticisms in a way which would, at least, reach the bankers of this district."

Why single out our letter alone from "the many criticisms that have been made against the Federal reserve system?"

Since writing you on the 23d, we note that you have issued statements through the press concerning our letter. Based upon the letter received from Mr. Hardy, it is our contention that before using our letter for publication or either for release to the press, that you should have obtained our consent for its use for this purpose, as the purpose for which it was to be used was clearly stated in Mr. Hardy's letter and the fact that it was to be used confidentially was also plainly stated.

We regret the course you pursued exceedingly. It has placed us in a position that we feel is entirely unjust.

The president of our firm has been sick for several days. He will prepare a reply to your letter and mail it to you within the next few days, with the distinct understanding that the same will be printed and mailed to each and every one to whom the former letter was mailed to, and in addition to this we feel that you should release this letter to the press, at least to the same publishers to whom you released your fromer letter to.

We note that you state:

"We will mail it together with both original letters, in order that you may have the last word."

We also note that you state:

"We take for granted that nothing will be in your letter, which you may desire us to send out, on the subject of the propriety of our sending out the correspondence."

We feel that in justice to ourselves it should be explained that our letter was written upon request of a letter from the chairman of the board, Mr. Hardy, which letter stated it was to be used for the purpose of making up a report and that whatever we wrote would be considered confidential. If some such explanation is not made, many of those receiving the letter will be totally at a loss to understand our position, and not being informed in the matter, will draw the conclusion that we have raised a controversy, or that we are the ones that have forced the discussion of the subject, whereas we have been forced into a discussion of the subject by your action, which leaves us no alternative.

As it is necessary for us to delay a reply to your letter on account of sickness, as explained above, we are dropping you this note. Our reply will reach you within the next few days. We regret the delay, which is unavoidable, as we feel that our reply should receive prompt circulation, as delay in answering same would probably result in many reaching the conclusion that we were convinced of the correctness of your position and unable to combat your argument and, therefore, remained silent.

Your action in giving publicity to our reply and distributing it as the previous correspondence was distributed and release of same through the press as the previous correspondence was released, will result in placing the matter before the same people who read the former correspondence, and we cheerfully abide their decision.

Assuring you of all good wishes, we beg to remain,

Yours, very truly,

BANKS & WIMBERLY CO.

The Federal Reserve Bank of Richmond, under date of August 1, 1921, replied to that letter as follows [reading]:

BANKS & WIMBERLY CO.,
St. Matthews, S. C.

GENTLEMEN: We beg to acknowledge receipt of your letter of July 30 addressed to Gov. Seay. Mr. Seay is now away on his vacation and it will be some time before he returns. Although we are disturbing him just as little as possible, I am forwarding your letter to him to-day, and will, of course, forward him the answer, which you say will be in our hands by the latter part of this week.

Very truly, yours,

CHAS. A. PEPLE, *Deputy Governor.*

In accordance with your request we are inclosing herewith a copy of our circular of July 23 on "Financing the new cotton crop." I think you will find your questions answered in the circular itself.

Circular letter from the Federal Reserve Bank of Richmond to all member banks of that district, under date of July 23, 1921, on the subject of "Financing the new cotton crop" contained the following statements:

Under the conditions hereinbefore set forth and under the terms of the Federal reserve act and the regulations of the board, the Federal Reserve Bank of Richmond will make further advances for making and gathering the growing crop, and will discount for its members eligible paper secured by warehouse receipts for new cotton at 80 per cent of the market value at the time loans are made, to be kept good; and will discount acceptable trade acceptances of mills for cotton purchased and intended for consumption, and bankers' acceptances based on new cotton and made under the regulations.

The reserve banks of the cotton States can adequately provide for the gathering and orderly marketing of the new crop with the full cooperation of all member banks. To make this aid thoroughly effective, member banks will be compelled to take measures to provide for the small cotton producer, both in completing his crop and in order that he may not suffer by having to sell his cotton immediately upon gathering it, should there not be a satisfactory market at the time. The proceeds of such advances on new cotton should be used to liquidate current indebtedness where possible in order to give vitality to credit. It should be obvious that business can not move and be kept moving unless cotton is sold as the market will take it.

Since this letter has been written no reply has been received from Gov. Charles A. Peple. However, a letter written by Banks & Wimberly Co. to the chairman of the Richmond board, in reply to letter requesting confidential information for the purpose of preparing a report, has been given wide publicity by the Federal Reserve Bank of Richmond. This letter was sent to bankers, merchants, and colleges with the name of the writer omitted. This, however, did not justify the use of the letter in the manner in which it was used. The circulation of this letter has resulted in still further destroying confidence. Several bankers, calling on their banking connections in New York, were declined accommodation and were urged to reduce their lines; when they pressed for a reason for this

position, they were furnished with a copy of this letter written by the Federal Reserve Bank of Richmond and also with other circulars and letters sent out by the Federal Reserve Bank of Richmond, they taking the position that it was clearly shown therein that banks were very much overextended. A number of the New York banks made the statement to these bankers that they not only would not extend additional accommodation but that they felt that these banks were in such an extended condition that the matter of accommodations for the coming spring was in serious doubt.

One of the largest cotton factors in the South Atlantic informed me that this matter had a most serious effect on their business; that banks in the North and East from whom they had been receiving accommodation seemed extremely uneasy concerning the condition of the banks and the people with whom they were doing business in the South Atlantic.

The following is a letter from George J. Seay, governor Federal Reserve Bank of Richmond, to T. A. Amaker, Esq., president Banks & Wimberly Co., St. Matthews, S. C., dated July 11, 1821 [reading]:

MY DEAR SIR: Your letter of the 2d, written in reply to our request for a brief report from you as to conditions in your line and locality, for the purpose of incorporation in our monthly report on trade and financial conditions, has come to my attention.

Your letter is a very interesting one, and your opinions, whether we may be able to agree with them or not, are welcomed and encouraged, because they are needed to make up that composite viewpoint which alone can truly depict conditions as reflected by actual physical circumstances and the mental attitude of the people of a locality or district.

I am going to take the liberty of analyzing and commenting upon several of your statements in the hope that it may be profitable to both of us. First, you state that—

"The purchasing and debt-paying power of a large portion of our population has absolutely been destroyed as the result of the deflation policy of the Federal reserve system."

By this I assume you mean that the credit policy or practice of the Federal reserve banks has been the direct cause of the "deflation" or decline in the prices of commodities, particularly of agricultural commodities. Of course, it must be admitted that anyone who incurs obligations based upon high-priced commodities, or labor, or securities, or real estate, or anything else, is seriously handicapped in his ability to pay by a drastic decline in the price of any of these things. That has always been the case and always will be; it is axiomatic. As to the cause of these severe declines in prices, there you will find a very great divergence of opinion. First and foremost must always be taken into account the antecedent rise, the natural law that what goes up is bound to come down, no matter what sends it up. As opposed to your opinion, I hold the view that the action of the Federal reserve banks in protection of their reserves, which were being rapidly exhausted—exhaustion of which would have caused collapse and ruin, entailing universal disaster, from which there could have been no recovery except by the long, tedious, patient, toiling process of building up after destruction—was no more responsible for what you call the "deflation" of prices than you are responsible for the action of the law of gravitation.

This "deflation", or decline in prices, was not peculiar to our own country, and to attribute such declines here or in other countries to the policy of the Federal reserve system is arbitrarily to assign to it an influence which it does not and can not exercise but which is the result of those laws of action and reaction which have been at work from the beginning of things.

The first serious shock which the business world received, as a forewarning of what was likely to happen everywhere in the world, was the sudden and violent decline in the silk market in Japan and the demoralization of business and finance there. The significance of that decline was not grasped at the time. Then came along an equally violent decline in wool prices; the market simply disappeared overnight. Then came declines in sugar prices and in cotton prices; in copper, rubber, and a wide range of staple commodities. You might go around the world, and in every land you would find a parallel.

This country waked up to the fact that the power to buy things at very high prices was limited by the income and disposition of a very large proportion of its population.

The governments of the world were no longer buying goods in unlimited quantities for war purposes, and the peoples of exhausted countries had not the means to buy them, whatever their needs. Moreover, the capacity for production, stimulated by the urgent demand of war and the consequent high prices, was tremendously increased. It gradually became apparent that the supply of raw products and the manufacturing capacity were both greater than the people were able to absorb.

What was bound to be the result? Credit was powerless to sustain prices. From that time on it became, day by day, increasingly apparent that the supply of things which the peoples of the world were bound to have was greater than was supposed, and greater than their incomes would enable them to purchase at the prices exacted. A very large proportion of the world had little or no income with which to purchase anything, even the bare necessities of life, and hundreds of millions of dollars were contributed by charity in this country to meet the needs of such people.

Surely no man can contend, with any show of reason, that these things were brought about by the policy of the Federal reserve banks, which rates at no time were really very high, and which were never as high as the rates charged by private owners of capital.

In one paragraph of your letter you state:

"The policy has, of course, resulted in forcing down prices of agricultural products. This has always been the case following great wars, in which we always have great inflation."

In another paragraph of your letter you say:

"We had 18 months of prosperity and business activity following the cessation of hostilities, and the present distressing financial conditions, therefore, are certainly not the natural aftermath of the World War but the result of the deflation policy as outlined above."

There seems to be an inconsistency, and even a contradiction, between these statements. It was during the period of "18 months of prosperity and business activity" to which you allude that the extraordinary expansion or inflation of bank credit took place, until it reached a dangerous point, beyond which it could not have gone much further without an inevitable, sudden, and violent collapse. It was during this period of what you call "prosperity" that the production of commodities, and particularly manufactured products of a peace-time nature, was stimulated and competition in the purchase of such commodities, under the cultivated belief that they would go still higher, resulted in rapidly rising prices, requiring more and yet more credit to finance transactions. Moreover, this should be taken into account, and it is an extremely important factor in considering business activity and the course of prices during the period to which you refer: After the armistice there remained about $2,500,000,000 of loans to foreign countries unexpended and available, and our large exports to Europe in 1919 were paid for very largely out of this fund, provided by the people in this country through Treasury loans. That situation by itself would have served to keep business active for a time.

For the full period of a year the attention of the whole country was called to these conditions and the inevitable consequences. Rates of discount at Federal reserve banks were gradually raised, and warnings were given people to exercise restraint in the use of credit. But notwithstanding these warnings and increases of the discount rate, many writers who should have known better bitterly scored what they termed restrictions of credit when, as a matter of fact credit was being continuously expanded. During the most violent stages of price adjustment credit was being expanded, not contracted. Nobody would heed the warnings. The individual banks the country over lent out all of their reserves—every dollar and more, too—and borrowed from Federal reserve banks to recreate or replace their reserves. It did not take long to discover that credit obtained against commodities and goods at high prices was being used to hold them off the market and create a belief in scarcity and force up the price. When this became well understood, the game was up.

You further state:

"Millions of people in Europe and Asia who own lands, forests, mines, and factories, and who are industrious people, are in desperate need of raw products, while on our side, as a result of this policy, we are being smothered by the very products which they are needing so badly. We are suffering not from overproduction but from underconsumption."

Can anyone explain how these millions of peoples in Europe and Asia who own lands, forests, mines, and factories can use them in paying you for your raw products? Raw products are not usually paid for in any such way. The best thought of this country has been vainly searching for a way by which the people who have no liquid capital and little credit can buy our goods and by which we can safely sell them our goods under such conditions.

What has been done already in the way of granting them credit? Your statement appears to imply that there is some easy way of continuing it, and even that the Federal reserve system has the power of doing it. These countries to which you allude already owe us the incredible sum of about $18,000,000,000, made up about as follows:

Advances for war loans	$10,000,000,000
Surplus war material sold abroad	3,000,000,000
Due to American exporters and manufacturers	3,000,000,000
Due to American investors, etc	2,000,000,000
Total	18,000,000,000

There is a limit to this thing. Corporations have been formed for the purpose of aiding exporters to do more business with these foreigners described by you, but a very small amount of business has resulted, because no way has yet been found by which credit can safely be extended in large volume to people who can not pay, or if they can pay at all can only pay by slow degrees as they accumulate capital. Our merchants are slow to take further risks. Doubtless you know that hundreds of millions of dollars in goods were repudiated by foreign buyers, and were left on docks unclaimed.

The English Government agreed to assume 85 per cent of the risk of its manufacturers in selling to these people whom you describe, but I am informed by very competent authority that comparatively little business has been done under that guaranty, because the English merchants are unwilling to assume the balance of 15 per cent of the risk, and have found that the people have nothing available as a basis of credit and that they can not safely extend credit. As to underconsumption, is has always, everywhere been demonstrated that people under stress of circumstances can and will govern their consuming capacity, and that without material distress. The difference between extravagant and frugal consumption in this country alone is sufficient to bring about temporary depression.

Is the Federal reserve system to blame for these conditions?

You say:

"Unless these conditions are relieved through a lowering of the rediscount rate to, say, 4 per cent on bonds and 4½ per cent on agricultural and commercial paper, through a renewal of agricultural loans until markets can be opened and confidence restored, and through more liberal extension of credits, conditions will grow steadily worse and a large portion of the agricultural section of the Nation will face universal bankruptcy."

Loans are being constantly renewed. In your State, particularly, there has been practically no liquidation for a year. I am wondering what you mean by a more liberal extension of credits. There are 99 member banks in South Carolina, 91 of which are borrowing from us. (The 8 banks which are not borrowing amount to a small sum in resources.) This bank is lending those 91 banks 308 per cent of the amount which they contribute to the lending power of the Federal reserve system. This is between five and six times the amount of the reserve deposits of those banks in the Federal Reserve Bank of Richmond. Take the two member banks in your city by way of illustration: We are lending to these two banks ten times the amount of their reserve deposits. Would you contend for a more liberal grant of credit than this? In some cases in South Carolina—principally the cases of small banks—we are lending ten to fifteen times the amount contributed by those banks to the maximum lending power of the Federal Reserve Bank of Richmond. We are lending to the banks of North and South Carolina $47,000,000, which is practically one-half of the largest amount ever borrowed at any one time by the national banks of the country prior to 1913, or before the establishment of the Federal reserve system. Besides, the member banks of your State are borrowing between six and seven million dollars from other banks, which get the funds from the Federal reserve system.

We often hear that the farmers can not obtain credit from their local banks. What is the reason, when the Federal reserve bank is lending its member banks so freely? As I have stated, the reserve bank is lending to some of these banks beyond all reason, and to all of them with the utmost liberality consistent with prudence. If, then, the banks, notwithstanding, are not in a position to lend to their agricultural customers as may be needed, it is due to one of two causes: First, a lack of capital in the community; or, second, to the management of the banks in placing their loans. In a very large number of cases, the banks have so loaned their funds that they have become tied up and they can do no more than renew the loans time after time. We, of course, have access to the statements of all member banks, and I feel that I am

wholly justified in making the statement that the inability of banks to make temporary loans is due to the fact that they have so managed their funds as to allow them to become tied up. Sometimes the causes of this are beyond their control, but far more often indeed, due to the nature of the loans themselves. The experience of banking everywhere is that there is danger in heavy borrowing by banks, and the safety of the national banking system was founded upon two principles; First, that no bank should become liable in an amount greater than its capital stock; and, second, in the limitation that was placed by the law upon the amount which a national bank could lend to one borrower.

This week I participated in a conference with cotton men from the far South, or men interested in the cotton business, some of them bankers. One of them stated that he was lending to his cotton borrowers all that he was willing to lend, which illustrates the principle which I have enunciated above. These men appeared to have no delusions as to the causes of the decline of cotton prices, and stated that they, and many others whom they knew, more than a year ago when many people were advocating the holding of cotton for 40 cents, were selling their cotton as fast as they could and as fast as the market would take it, knowing what would come.

As soon as capital becomes sufficiently plentiful, the natural course of interest rates will be to decline. Nobody can say at this time that capital is plentiful. Then why should it be made artificially cheap? Look at the rates which cities, counties, and towns have to pay for their funds. Look at the rates which railroads and great manufacturing corporations have to pay for large loans. Look at the rates which Governments, both foreign and domestic, have to pay for large loans. Capital can only be called abundant when banks have surplus funds of their own which they are anxious to place. It can not be abundant when they are forced to borrow from other banks or from Federal reserve banks for the purpose of lending. It would, therefore, serve no good purpose for Federal reserve banks to lower their rates, but, on the contrary, would give a false impression as to the supply of capital. Banking institutions are not borrowing institutions; they are lenders, and the sound opinion everywhere is that banks should be borrowers only for seasonal operations which demand greater use of capital, or for extraordinary emergencies to tide over difficulties in individual cases. For banks to borrow in order to lend at a profit has been everywhere, at all times, recognized to be an unsound practice. No bank can absolutely control the use of funds which it lends. Particularly is this true in the cases of large cities and large banking institutions. In my judgment, to lower the interest rate to any such figures as you specify would not only be responsible for a false idea as to the abundance of capital but would result in stimulating the use of liquid capital in directions in which by no means it ought to go under existing conditions, and would make the situation worse instead of better.

We are advised that your State bankers' association at their recent convention unanimously rejected a resolution that the reserve bank rates should be reduced to the figures specified by you.

As for this bank, it is lending as liberally to its member banks—particularly in South Carolina—as any borrowers have the right to expect, and further "liberal extension of credits" in such cases could not possibly be allowed with prudence. When either banks or individuals are already borrowing more than their equitable proportion of available funds, and in many cases beyond the limits dictated by experience, prudence, and safety, how can there be talk of still more liberal extension of credits? The trouble lies deeper than this, and it can only be cured by time and the reaccumulation of capital by the slow process of saving and the discharge of debts by the products of labor. There is no universal remedy, nor is there any specific cause for the declines of which you complain, but rather a cause complicated by and embracing the operations of all natural and economic laws.

Yours, very truly,

GEO. J. SEAY, *Governor.*

Mr. WANNAMAKER. Mr. Chairman, coming back to the meeting which we requested with the Federal Reserve Board, we appeared there and met Gov. Harding. The Secretary of the Treasury was not there. We talked of the situation, and told him that our markets were being destroyed; nobody was buying anything. We had about one hour's session. Some of the men got very much dissatisfied and moved that we adjourn without going further into it. We finally, after getting no suggestion or satisfaction out of this meeting, adjourned, and at the solicitation of five prominent Senators we appeared again before the board, who reluctantly gave us a hear-

ing the next morning. We talked and plead with them that they establish confidence, first, by announcing that the Federal Reserve Board was prepared to handle agricultural paper through the member banks by rediscounts; second, that they do something to reestablish confidence. We plead with them that they lower the rediscount rates; that would be a benefit. Every one of the different groups plead with them to do that. I asked them, individually, just to reestablish the War Finance Corporation. We adjourned without a decision, and we were led to the thought that they were going to grant our request. About two days after that a statement came out in the press that killed our hopes.

The CHAIRMAN. Do you happen to have a copy of that announcement?

Mr. WANNAMAKER. For the press? I think I have that statement. It will take me a little time to find it. I think it was released for publication on October 17.

(The statement referred to is here printed in full, as follows:)

STATEMENT OF THE FEDERAL RESERVE BOARD.

In view of the representations which have recently been made to the board as to the unavailability of credit in agricultural sections the board requested information concerning credit conditions throughout the country from the chairman and governors of Federal reserve banks at their usual autumn conference here this week. The board is advised that credit has been steadily available for the successive seasonal requirements of agriculture, as well as for the needs of commerce and industry, and that there is no ground for expecting that its availability for these purposes will not continue. The present improved credit situation is due in part to the timely steps taken last spring, following conferences between the board and governors and directors of Federal reserve banks to provide credit for crop moving requirements, and in part to the subsequent improvement in transportation reported from all districts except in a few localities.

Between January 2 and October 1 of the present year about 800 leading member banks from all sections of the country which report their condition to the board weekly and which represent approximately 70 per cent of member bank resources, have increased their loans for agricultural, industrial, and commercial purposes by an amount exceeding $1,800,000,000. This great increase in the credit extended to their customers has in the main been made possible by the accommodation extended member banks by the Federal reserve banks.

During the same period, the 12 Federal reserve banks have increased their holdings of agricultural and commercial paper by more than $500,000,000, and from January 23 to October 1, 1920, increased their issues of Federal reserve notes by over $460,000,000. At the same time, Federal reserve banks having surplus funds have extended accommodation to Federal reserve banks in agricultural and live-stock districts by means of discounts, aggregating on October 1 over $225,000,000.

The disturbances in price and demand which have recently manifested themselves in markets for various agricultural and other commodities, not only in the United States but in other countries as well, are inevitable and unavoidable consequences of the economic derangements occasioned by the World War. The United States continue to have a heavy volume of exports although foreign demand for certain agricultural staples has somewhat decreased. But the chief market for our raw and manufactured products is at home, and our present huge crops of immense value may be expected gradually and in regular course to move from producers to consumers. The recent census, reckoning our population at 105,000,000, emphasizes anew our own capacity as consumers irrespective of the demands of other countries.

Mr. WANNAMAKER. Now, as a result of this hearing before the Federal Reserve Board the representatives of the groups of agriculture went back home. They could not get any buyers. The cotton producers could not sell their cotton. The market was falling every day. The abolishing of the War Finance Corporation, gentlemen, was the first step in artificial deflation, which destroyed the

means of exporting. Second, and next to that, was this publicity, which absolutely destroyed confidence and created a typical buyers' panic. Next to that was the higher interest rate, and next the restriction of credit and constriction of the currency——

Representative TEN EYCK. Have you ever found out definitely who gave out those articles to the papers?

Mr. WANNAMAKER. No, sir.

Now, as result of this meeting, we went back home, and we decided that there was only one course for us to pursue, and that was for us to reduce production to such a point that the banking system of this country could finance the production. So we put on a reduction campaign and reduced the cotton acreage nearly 30 per cent. All the cotton unsold and on hand is very largely of the low grades. The coming cotton crop is the lowest, the Government shows, in about 30 years.

In addition to that, the other different lines of agriculture went back home and took the same action. I notice that cattle raising is going down very much. And, gentlemen, I am here to tell you, by way of emphasis, that the consumer is going to pay the very penalty that the producer is paying to-day. Short production is coming. If you destroy the incentive for them to produce, if you destroy the power for them to produce, they will not produce. I am here to tell you that we can not get relief otherwise, and I say that having everything I have in God Almighty's world invested in agriculture. Reduction of production will bring prices that will enable the producers to meet the debts that have been put upon them.

To go back to another very important matter, the next thing was the reduction of credits, which I have alluded to. I received letters, which I want to read here, bearing on this matter.

Mr. Chairman, I want to stop right here to read a letter from the Secretary of Agriculture, which I should have read a while ago, that came out on March 13, 1921:

> We can not hope to reach normal conditions until we arrive on a price level which will be fair to all our people and all products. Farm products must come up in price and other products come down until the normal relation between them has been restored. This talk of bringing prices, whether farm prices or other prices, back to the prewar normal is morally wrong and economically impossible. We incurred a heavy national debt on the inflated prices. If we could force all prices back to the prewar normal—which we can not—it would be equivalent to just about doubling that debt. We can pay off our debts much easier if we maintain a price level more nearly the level at which the debts were incurred. Of course, the excessively high prices which prevailed during the war can not continue, but if we should try to bring about a level, say 70 per cent above the prewar normal, everybody would be better off.

Our price for cotton to-day, as a result of the law which changed the ruling of the exchange and the heavy increase in freight rates, is about 5 cents a pound below what it was in 1914.

The CHAIRMAN. Did the Secretary propose any way of maintaining prices at 70 per cent above prewar levels in the face of what was occurring all over the world?

Mr. WANNAMAKER. I do not know. The only way they could be maintained would be to have buyers, and the only way to have buyers, is for men to see that they can buy at a price that will not show a loss, and also to see that they can obtain finances with which to buy. He will not buy if he is convinced that the danger sign is still out and prices are going still lower.

That the five years of war has wrought changes which will compel acceptance of, adjustment of, and adjustment to an elevated standard

of values as a permanent inheritance is a certainty. The war has created marked sociological changes and left indelible changes upon the masses of the people; this is apparent in the radical political and economic changes which have taken place throughout the world—changes expressed in the overthrow of governments, and demands for greater political and industrial recognition and demands that the standard of living be elevated to a higher plane, and that there be a more equable distribution of the world's benefits and burdens.

It was inevitable that this should prove a natural sequence of a conflict directly involving for five years over 140,000,000 of the world's peoples, demanding sacrifices of life and property unprecedented in the world's history.

The cost of living here has increased less than in any of the belligerent countries (including Japan, which assumed no appreciable part in the financial burden of the war) or in the neutral countries of Europe.

The interest on the enormously increased National debt, which can only be paid by a vast increase of taxation, necessitates a vast increase in production. Increased production can only come as result of prices far above prewar prices. You can fix the price of capital, but you can not make it work for that price; you can fix the price of labor, but you can not make it work for that price; you can force down artificially the prices of raw commodities, but you can not force the farmers to produce where the price fails to bring them earnings that they can secure in other lines of endeavor.

For five years the world has been consuming more than it produced, living upon its capital and the governments of the world have been issuing evidences of indebtedness to represent the wealth destroyed. This has caused world inflation of prices, which necessitates a price far above prewar levels.

America should accept the opportunity offered to her of world trade and furnish to the people of the world material to enable them to rehabilitate. The accumulation of a gold reserve, restrictions of credit and deflation of prices will not accomplish this result; the situation can only be met through an enormous increase in production, and an enormous increase in production can only be secured by permitting the law of supply and demand to function, and based upon the law of supply and demand and the changed conditions above alluded to, prices of 70 per cent and above as based upon prewar prices are absolutely necessary. An examination of the national debts of the world should convince anyone with common sense of the necessity of becoming intensely busy and bring to them a realization of the fact that the time has at last arrived when we should apply the science of construction instead of the science of destruction.

The financial standing of the various countries of the world, as shown in table I am presenting, plainly demonstrates the facts that the world's peace, for the protection of the financial fabric of the world, is absolutely necessary, and that it is absolutely necessary that the people of our Nation, and world-wide, become intensely busy.

We can only meet the conditions confronting us by intense commercial activity. We fought the World War for the purpose of making the world safe for democracy; this result could only be accomplished through the intense activities of men. There was

never a greater need for agricultural products and intense commercial activity world-wide than exists to-day, the financial standing of the countries of the world are convincing proof of the need of this and convey to our mind as a matter of common sense that the only way that this situation can be met is by an enormously increased production, and not by limitation of production through artificial deflation, as had been tried. America has the greatest opportunity to secure world's supremacy of trade, bring to her people great and lasting prosperity, and to secure and promote permanent peace through commerce that has ever been presented to any nation in all time.

National debts of the world, 1913 and 1920 (as nearly as can be stated).

[In United States dollars, reduced at normal prewar value of the respective countries.]

	Prewar, 1913.	Year 1920.
Argentina	$732,398,000	$531,000,000
Australia	80,753,000	1,950,000,000
Australia States	1,348,624,000	1,831,000,000
Austria	2,152,490,000	16,807,000,000
Belgium	825,269,000	2,750,000,000
Bolivia	19,369,000	26,500,000
Brazil	663,667,000	1,223,000,000
British Columbia (not herein named)	65,000,000	102,000,000
British West Africa	55,200,000	63,000,000
British West Indies	29,100,000	32,800,000
Bulgaria	135,300,000	2,158,000,000
Canada	544,391,000	2,276,000,000
Ceylon	30,011,000	27,100,000
Chile	207,704,000	228,377,000
China	969,189,000	1,534,575,000
Colombia	24,234,000	22,856,000
Costa Rica	16,488,000	20,254,000
Cuba	67,620,000	63,289,000
Czechoslovakia	....	7,000,000,000
Denmark	95,579,000	206,000,000
Dominican Republic	13,218,000	13,358,000
Dutch East Indies	....	91,871,000
Ecuador	19,780,000	25,756,000
Egypt	459,153,000	460,338,000
Finland	33,70[illegible],000	35,700,000
France	6,345,129,000	45,025,000,000
French colonies	210,667,000	579,711,000
Germany	1,194,052,000	57,200,000,000
German States	3,854,795,000	8,300,000,000
German colonies	32,410,000	32,410,000
Greece	203,640,000	463,367,000
Guatemala	17,577,000	16,230,000
Haiti	42,863,000	23,970,000
Honduras	121,231,000	131,771,000
Hungary	1,731,350,000	11,403,000,000
Iceland	47,200,000	52,600,000
India, British	$1,475,272,000	$2,310,000,000
Italy	2,921,153,000	18,330,000,000
Japan	1,241,997,000	1,300,000,000
Jugoslavia	....	705,000,000
Latvia	....	10,895,000
Liberia	1,600,000	1,685,000
Lithuania	....	27,000,000
Luxemburg	2,091,000	8,831,000
Mexico	226,404,000	500,000,000
Netherlands	461,649,000	1,072,000,000
New Zealand	438,271,000	856,875,000
Newfoundland	27,450,000	35,000,000
Nicaragua	9,182,000	18,59[illegible],000
Norway	97,215,000	250,000,000
Panama	5,100	7,101,000
Paraguay	12,751,000	13,515,000
Persia	....	45,000,000
Peru	34,258,000	34,015,000
Philippines	12,000,000	20,470,000
Poland	....	9,500,000,000
Portugal	947,603,000	1,289,646,000
Rumania	316,693,000	4,100,000,000
Russia	4,537,861,000	25,000,000,000
Salvador	9,970,000	11,098,000
Siam	27,799,000	32,616,000
Spain	1,814,270,000	2,374,000,000
Straits Settlements	33,627,000	57,424,000
Sweden	161,390,000	340,000,000
Switzerland	23,614,000	350,000,000
Turkey	675,654,000	2,300,000,000
Union South Africa	573,415,000	780,766,000
United Kingdom	3,485,818,000	37,910,000,000
United States [1]	1,028,564,000	24,062,510,000
Uruguay	137,827,000	164,378,000
Venezuela	35,051,000	28,983,000
Total	43,103,495,000	297,607,919,000

[1] Includes moneys due from foreign Governments.

NOTE.—Germany figures do not include the assessed indemnity of $55,000,000,000, and the recent increased obligations incurred by France or Russia are not included.

As nearly as can be stated the world's debts have increased from $43,103,495,000 in 1913 approximately to $300,000,000,000 in 1920, or over 600 per cent.

From the official reports of the Comptroller of the Currency and of the Federal Reserve Board I take the following financial statements from June 30, 1920, to April 28, 1921, a 10-month period of intense deflation in credits with excessively high interest rates.

On June 30, 1920, the total loans and discounts of the national banks in the United States stood at $12,396,900,000, and by April 28, 1921, they had been restricted to $11,367,074,000, a loss in the credit machinery of the Federal reserve banking system of $1,029,826,000 in the short space of 10 months. The total deposits in national banks on June 30, 1920, were $17,155,421,000, and by April 28, 1921, these had been reduced to $14,851,859,000, a loss

in deposits within that period of $2,303,562,000. During the same time the currency of the Nation was contracted $460,000,000, which makes a grand total deflation in the financial resources of the Nation of $3,733,418,000, or $37 per capita.

The Comptroller of the Currency stated on August 2 that the Federal reserve banks could now issue $2,692,000,000 of additional Federal reserve notes, or grant $3,076,869,000 of additional deposit credits, and still maintain the legal gold reserve basis of 40 per cent. These figures from the comptroller's office prove that while the per capita circulation, based upon the gold reserve, was decreased $460,000,000 in the past 12 months, that the gold reserve actually increased $502,472,000.

Per capita circulation, as is startlingly illustrated above, does not mean the actual money in circulation, as a great amount of said per capita circulation may be locked up and hoarded by those who are assisting in the deflation policy. However, it is amazing to realize the fearful contraction of per capita circulation in the United States as compared with the other leading financial countries, as follows:

	Per capita circulation.
United States:	
June 30, 1914	$34.35
June 30, 1921	53.42
Showing an increase of $19.07 per capita circulation.	
Great Britain:	
June 30, 1914	19.46
June 6, 1921	45.53
Showing an increase of $26.07 per capita circulation.	
France:	
June 30, 1914	61.17
June 30, 1921	185.19
Showing an increase of $124.02 per capita circulation.	
Germany:	
June 30, 1914	20.03
July 7, 1921	368.62
Showing an increase of $348.59 per capita circulation.	
Italy:	
June 30, 1914	15.25
May 31, 1921	106.08
Showing an increase of $90.83 per capita circulation.	

The increased per capita circulation shown in the United States is not only entirely out of line in this proportion with the increase per capita circulation shown in the above countries, but, in addition, to this it fails to show the increase per capita circulation necessary based upon the enormous cost of the World War to America. We largely financed the World War, necessitating inflation for years, instead of drastic artificial deflation, as has been so severely enforced during the past year.

While the figures show an apparent increase in the per capita circulation in the United States of $19.07 over the circulation of 1914, it does not mean that this amount is in actual circulation. As a matter of fact, deflation in the currency, contraction in credit resources, and loss in deposits during the past 12 months, amounted to $37 per capita, which makes the available financial resources of the people at this time far less than they were in 1914.

The following interest table shows the rediscount interest rates charged by regional reserve banks from the time the system began

operation in 1915 to 1921. The lowest rates are on 30-day paper, the next highest of 60 to 90-day paper, and the highest on four to six months agricultural loans.

	30 days.	60 days.	4-6 months.
	Per cent.	*Per cent.*	*Per cent.*
July 1, 1915	4	4	5
July 1, 1916	3½	4	5
July 1, 1917	3½	4	5
July 1, 1918	4½	4½	5½
July 1, 1919	4	4½	5½
July 1, 1920	5½	6	7
July 1, 1921	6	6	6½

From these rediscount figures it is quite evident that the interest rates of the system are lowest during periods of the greatest prosperity in business, while maximum and usurious rates of interest were charged in a period of the greatest adversity of the people.

As an evidence of the application of unjust and usurious rediscount interest rates to the largest territory of the cotton belt, the regional reserve banks at Atlanta, Dallas, St. Louis and Kansas City were directed and forced by the Federal Reserve Board to put on a high progressive rediscount interest rate running from 15 to 25 per cent, and higher, which was not applied by any other regional reserve banks in the United States.

It is reported by reliable authorities that the records of the following regional reserve banks show the net earnings stated below, during the past 12 months:

	Per cent.
Boston	120
New York	203
Philadelphia	121
Cleveland	110
Richmond	118
Atlanta	151
Chicago	178
St. Louis	121
Minneapolis	112

Dallas, Kansas City, and San Francisco, likewise, are reported as earning above 100 per cent.

While farmers were told to sell and take their losses, the same system which enforced drastic artificial deflation was piling up illegal and unrighteous profits. Any financial system operating under the laws of any country which is permitted to so unrighteously take advantage of the suffering needs and helplessness of the people, is not justified by any rule of right in modern civilization.

The investment in American agriculture amounts to about $80,000,000,000. It is the greatest asset of the Nation. If the farmers of the United States should decide to go into another business, if they should sell all of their live stock and crops, for just one year, they would have enough to buy all the railroads of the Nation, with all of the rolling stock and other equipment. If they were also to sell all of their lands, along with their live stock and crops, they could buy all the railroads, all the manufacturing establishemnts now on record, all of the mines, and all of the forests. It would indeed be about an even trade between the farm property and all other productive property in the United States, except the purely mercantile establishments.

And yet, strange to say, America is the only country recognized as a banking country that has not a representative of agriculture upon the board. The Bank of England, the world's greatest banking institution, has only one banker on the board. The commercial side is represented; the different divisions are represented. The same condition exists in Germany, in France, and in Italy. In America, with her great agricultural interests, the greatest industry in the world, the act specifically states:

A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. In selecting the five appointive members of the Federal Reserve Board, not more than one of whom shall be selected from any one Federal reserve district, the President shall have due regard to a fair representation of the different commercial, industrial, and geographical divisions of the country.

But what do we find? I fail to find the representatives of the different industrial and geographical divisions of the country.

The CHAIRMAN. Who is responsible for that?

Mr. WANNAMAKER. Mr. Chairman, I am not trying to place the responsibility; I am trying to show you conditions. I think that would be for you to find, if you think it is necessary. I am just telling you conditions as I find them. In these other countries the industries, agriculture, and commerce are represented, but on this board the provision is plainly ignored.

The CHAIRMAN. What I am getting at is this: We have that provision of law requiring them to be selected in that manner——

Representative TEN EYCK. Undoubtedly the President and the Senate appointed them jointly. There is no need of trying to escape that. The Senate is equally at fault with the President, if there is a fault.

Mr. WANNAMAKER. I do not mind speaking out. I am a Democrat. I say the President is at fault.

Representative TEN EYCK. The Senate is just as much at fault as the President in confirming them.

Mr. WANNAMAKER. Yes, sir. Now, the Federal Reserve Board is composed of five members with these two ex officio members. I find that when you go to change a freight rate you have a public hearing. I find that the United States Supreme Court has public hearings. And yet here is something that is going to affect the lives of practically the entire people of this Nation, through the contraction of the currency, through restrictions of credits, through the raising of the rediscount rate, and yet that is going to be decided without giving due notice and consideration. Based upon that, if we had had notice that there was going to be a contraction of the currency and of credits, that there was going to be a raising of those rates, we could have been prepared to meet it.

I want to offer for your serious consideration, Mr. Chairman, a few suggestions, based upon the operation of the leading financial countries which have stood the test of time. Based upon the conception I have of the Federal reserve system as a fine piece of machinery, I think it would be a calamity to try to substitute it, but I think there is room for correcting some evils in connection with it.

Long years of experience in the most advanced agricultural countries of Europe have clearly demonstrated that the entire system of commercial banking fails to meet the requirements of the farmers. Commercial banking has been built up on short-time loans and quick turnovers. The farmers can only make and turn over their crops once a year. Loans to farmers should be divorced from the commercial banking methods and should run from six months to one year in the cotton belt and from six months to three years in the grain and live-stock sections. The interest rate should be made as low as possible.

The farmers require special legislation in regard to these matters, not because of any need for paternalism, but because of the nature of the avocation. The experience of the past 12 months demonstrates quite clearly that laws should be inaugurated which would absolutely prohibit those in control of the Federal reserve banking system from putting into effect and force any kind of policy of deflation affecting the market values of staple farm products between the time of planting and the marketing of such crops. There should also be legal provisions made requiring a more general publicity of any decided change in the policy of the Federal Reserve Board with reference to restrictions of credits, contraction of currency, or raising of rediscount interest rates. The financial machinery for American farmers, as applied by the Federal reserve banking system, is inadequate to meet their needs.

I believe in the financial principle underlying the Federal reserve system. I believe that, as originally proposed, the contemplated facilitation of sound financiering, it would be of inestimable advantage to all productive elements in the United States. I am convinced, however, that in demonstration the act has been diverted from its original purposes. After several years' experience with the act, I am convinced that the act itself can properly stand no substitutes, but that it should be amended so as to cure the abuses and defects which have appeared.

We have two things to consider, therefore: First, the personnel of the board, and second, the limitation of the power of the board.

In regard to the first, the act itself clearly shows that it was intended to have representatives of commerce and industry on the board. A proper scheme would be to enlarge the board so as to have it embrace one representative from each of the 12 regional districts. These representatives should be selected by the respective regions, and not more than two or three, if any, of them should be primarily bankers. The selections from each region should be subject to the approval of the President and the confirmation of the Senate. In other words, the Government must have some control over the membership of the board, or the board might put into effect policies which would be totally unattuned to the general policy of the administration. It might be well to have the Secretary of the Treasury ex officio as a member of the board, and the governor appointed by the President, irrespective of the locality from whence he comes.

I believe there should be a carefully selected advisory board, representative of the various departments of agriculture, commerce, and industry throughout the Nation, this advisory board to be selected in the same manner as the regular board, with a representative from each regional district, it being the duty of this advisory board to

confer with the regular board regarding any change in the policy of the system affecting the business interests of the people.

Representative FUNK. Would not that division of responsibility make it rather cumbersome?

Mr. WANNAMAKER. It is open to that objection, except for this: I frequently find that they give public hearings on freight rates, with representatives present from various sections of the Nation. I find that they give public hearings in the courts and summons great numbers of witnesses. I am trying to avoid all that; I am trying to get representation there from the different lines of industry.

Representative FUNK. There is an advisory board now; the Federal reserve act provides for an advisory board.

Mr. WANNAMAKER. Yes, sir; that is what I am trying to carry out.

The CHAIRMAN. How often do you suppose the question of the increasing or decreasing rates is considered?

Mr. WANNAMAKER. Well, now, Mr. Chairman, that would depend very largely upon conditions. I think that right now there is a difference of thought among men in America. And if you gentlemen to-day, in your wisdom would recommend, for the purpose of extending immediate relief for all these conditions—if you would recommend a lowering of the rediscount rate on Liberty bonds to 3½ or 4 per cent and on agricultural and commercial paper 4 to 4½ per cent, you would immediately restore confidence. People would decide that the Federal Reserve Board was through with its drastic deflation policy, that conditions were now safe, and it was time to reenter the market.

If you fail to do something to relieve the temporary condition which confronts us to-day there can be but one result, and that is that conditions are growing worse and people are going bankrupt over the West and South and every other section. They can not dispose of their products; they can not get any buyers. I find that when we have prosperity in this country the interest rates are very low and that the amount of bankruptcy is very small. I find that when the Federal Reserve Board interest rate was the lowest the prosperity was greatest.

I have shown you that as a result of these high interest rates the Boston Federal Reserve Bank during the past 12 months made 120 per cent; New York, 203 per cent; Philadelphia, 121 per cent; Cleveland, 110 per cent; Richmond, 118 per cent; Atlanta, 151 per cent; Chicago, 178 per cent; St. Louis, 121 per cent; and Minneapolis, 112 per cent. I find that during the time those earnings were made we had great stress in America; in other words, the people were not able to pay debts. I find that as a result of that the bonds which were sold all over America have largely passed out of the hands of the small bondholders. Their price has gone down to about 85; the interest rate being higher than what they were paying, naturally ran them down. They are going into the centers of wealth.

In addition to that, I find that as a result of these conditions the bankers have largely been forced to work at no profit whatever; they do well if they break even. I find that as a result of these conditions a great number of these staple crops are nonliquid; there is no market for them.

The CHAIRMAN. You speak of temporary relief. How long would you have this interest rate of 3½ to 4½ per cent continue?

Mr. WANNAMAKER. Mr. Chairman, I will say to you in all candor that I worked for the Federal reserve act, and I never understood it was going to be a profit-earning institution. I find that through all times prosperity goes hand in hand with low interest rates. I find that liberal credit is necessary to it. I find that a high interest rate universally brings poverty and misery and results in nonadvancement of civilization and commerce. I find that from the very earliest record where I can find any record whatever. That rate will go right back to the point where it was in 1915 to 1916. In 1915 it was from 4 per cent, for short term paper, to 4½ and 5 per cent; in 1916, 3½, 4 and 5; 1917, 3½, 4 and 5; 1918, 4½, 4½, 5½; 1919, 4, 4¾, 5½; 1920, 5½, 6 and 7; 1921, 6, 6, 6½, Now, on top of that, here is another matter. The bankers in agricultural sections have been forced to put up additional collateral under these conditions. They have put up the equivalent of two for one to secure the paper they rediscount.

The Federal reserve banking system should be regarded in the light of a great governmental financial servant of the people, and not the people as helpless servants of the system.

Any change of the railway rates of the country is given due and public consideration by all parties interested, the railroads, the Government and the various lines of industry affected, before any definite policy is changed.

We then come to the question of power. The problem is to devise the manner in which that authority is to be used, rather than in eliminating the authority itself. To illustrate: Let it be provided that, since a change in rediscount rates changes the status of each and every investment in the United States, and is a more vital thing than the transportation rate or a supreme court decision, no change in the rediscount rate should be permitted until the regional banks intending to make such change shall have given formal notice to all banks in the territory affected, and to the public by advertisement, that it is considering making such change and will hold public hearings on a specified date.

These hearings shall be held before the regional board. The action of this regional board should then be subject to approval by the Federal Reserve Board itself. If it be argued that this would cause delay, the answer is that delay is what we want, so as to give the people time to adjust their affairs and meet the changed conditions.

The Federal Reserve Board, having in their power the most vital departments of the entire population's machinery for conducting business, even formulating policies which, in a few months, can stagnate markets, paralyze business and bring wreck and ruin to thousands of innocent sufferers, should have all important matters such as the restriction of currency and changing of rediscount rates submitted to the entire board, including the advisory board, the adoption of all changed policies being dependent upon the action of the board composed as outlined above.

The present personnel of the Federal Reserve Board does not constitute a constituent representative body of men versed in the various commercial and industrial activities of the Nation. Such autocratic powers in the hands of a small board, without representation of our various commercial and industrial lines, should not be permitted

under a democratic form of Government subservient to the will of the people.

Bank credits and currency should be based upon the local requirements of business activities and the aggregate amount of wealth each year created in agriculture and industry. Increased production of crops and increased expansion of trade call for a corresponding expansion in credits and currency, not contraction of these supreme elements in the arteries of our business affairs.

The agricultural conditions which you are investigating to-day are convincing proof of the necessity of the changes as outlined above. The unfortunate adoption of the policy of contraction in credits and currency during the past 12 months has caused the Nation's agriculture and commerce to suffer losses estimated at $8,000,000,000 on agriculture and $17,000,000,000 on commerce, comparing the prices to-day with the prices one year ago. Deflation in market values of products and commodities should be slow, and, as far as possible, should have been uniform. Deflation in prices should at least have been carried through as many years as the inflation period and should have been based upon the law of supply and demand. The people should have been given an opportunity to have adjusted their business to meet the changes that had been found necessary. To knock a scaffold from under a man without warning is to precipitate him to the ground with broken limbs and probably loss of life. To permit him to come down on the regular rounds of the ladder, one round at a time, would be the only sensible course.

I offer for the consideration of your commission the above suggestions. If your commission will prepare a bill outlining the above changes and have the same introduced in both the House and the Senate, first, to enlarge the Federal Reserve Board and make it more thoroughly representative of business and commerce in all of its branches; and, second, to prescribe the methods to be used when the board undertakes to change the rate of discount or to contract the currency, either of which changes the status of every debt and every investment in the country; this bill to provide for one representative on the reserve board from each of the 12 regional districts, also one representative on the advisory board from each of the regional districts, representing not only the banking, but the various lines of industry, including agriculture, and requiring hearings, as outlined above, in advance of any change in rediscount rates or any contraction of the currency; a bill such as this, with your indorsement, I feel sure would be enacted into law and would bring permanent relief to the distressing financial conditions and would cure the defects in the present system; and with amendments to the present banking act, providing for the necessary changes in rediscounts, so as to meet the needs and requirements of agriculture, as outlined above, will furnish an ideal banking system. Had the Federal Reserve Board been operated under a law with the powers of the board as outlined above, the distressing financial conditions forced upon the agriculture and commerce of the Nation existing to-day would have never occurred.

The CHAIRMAN. Mr. Wannamaker, do you regard the Federal Reserve Board as a governmental institution or as a private institution such as the Federal reserve banks are?

Mr. WANNAMAKER. I regard the Federal Reserve Board as absolutely a central bank, with branches, which is in direct conflict with my understanding of the act——

The CHAIRMAN. You do not regard the Federal Reserve Board then as a governmental institution?

Mr. WANNAMAKER. No, sir; I do not believe that the Government of the United States intended or would permit autocratic rule. And I think it is absolutely autocratic.

The CHAIRMAN. How can a board, with solely supervisory powers, appointed by the President of the United States and confirmed by the Senate, be otherwise than a governmental institution?

Mr. WANNAMAKER. I think it should be a governmental institution, but I think it should be in the form of a democracy with representation on the board for the different geographical divisions and the different lines of industry. Aside from that, I think that unless we adopt that provision the system itself will not stand the test, but will go down just like previous attempts to institute machinery for financing in America.

The CHAIRMAN. If it is a governmental institution, the Constitution itself provides as to how the appointments shall be made, and I do not see any way out of it.

Mr. WANNAMAKER. You say the Constitution provides it?

The CHAIRMAN. I think it does.

Mr. WANNAMAKER. Which constitution do you mean?

The CHAIRMAN. The Constitution of the United States. If it is not a governmental institution, if it is but an instrumentality of the Federal reserve banks, as private corporations, or of the member banks, then I assume you can provide for the election of the members of the board from the member banks or from the Federal reserve banks or any other way you see. As long as you expect to maintain a supervisory board here in Washington, representing the Government, for the purpose of regulation, control, and supervision—I will not say regulation and control, but for supervision of the Federal reserve banks—you have to preserve that governmental character by appointments by the President, it seems to me.

Mr. WANNAMAKER. Mr. Chairman, as I understand, the law creating the Federal Reserve Board is subject to amendment, provided, of course, the amendment does not come in conflict with the Constitution. I think the Federal reserve banking system should be regarded in the light of a great governmental servant of the people, and not the people as helpless servants of the system. I think this change recommended here will popularize it. I think the Federal reserve system will be able to function if the banks will all come into the system. Unless these changes are made and you have representation of agriculture and the different lines of industry, as was originally intended, I do not think it will be possible for the Federal reserve system to go on and perform the service it should.

Representative FUNK. But, Mr. Wannamaker, you can not provide for representation of different industries or lines of business by an election.

Mr. WANNAMAKER. No, sir; I do not provide for that.

Representative FUNK. You make a double-headed suggestion there—that there be 12 directors, one elected from each reserve bank district, and that they shall represent various industries.

Mr. WANNAMAKER. Do you understand that to mean that they should be elected, sir? I would not recommend that under any conditions.

Representative FUNK. That is the way I understood you.

Mr. WANNAMAKER. No, sir; that would be a great mistake. My idea would be to elect them just like we elect the Reserve Board now.

Representative FUNK. Well, we elect them by the votes of the member banks. How could you elect a Federal Reserve Board, one member from each district, so that every important industry shall be represented?

Mr. WANNAMAKER. All right, sir, we will work that out. They are elected by the member banks, subject, of course, to the approval of the President and the Senate. Now, in the agricultural sections of the country those banks are most assuredly in sympathy with agriculture.

Representative FUNK. That would be a very probable result, but, you could hardly provide by law that these six or eight leading industries should be represented.

Mr. WANNAMAKER. The Federal reserve act provides that they shall be represented, and none of them are represented.

Representative FUNK. But that puts the duty upon the President, and it is not the result of an election that can not be foretold.

Mr. WANNAMAKER. Here was my idea, Mr. Funk, in connection with that——

Representative FUNK. I do not want to get into an argument with you. I do not think it is important, but we can not do that by an election.

Mr. WANNAMAKER. Here is the idea that I am trying to lead up to. I am trying to be perfectly frank in this matter. It is my honest, sincere conviction to-day, after having served as president of our State Bankers' Association and having been a banker for 35 years, that Wall Street has entirely too much influence with the Federal reserve system, and the sooner Wall Street and the Federal reserve system divorce relations the better off this country will be. I say that with all due respect to Wall Street. I have some good friends in Wall Street, but under this democratic form of government if money interests are going to provide the financial machinery of this country, gentlemen, it will not operate under the conditions we have in America.

I learned through the most reliable sources that high officials of the Federal Reserve Board, in urging the passage of the act giving authority to charge the progressive rate, stated that the authority to charge this rate was desired for the purpose of using the progressive rate in New York and Chicago to prevent speculation; yet, strange to say, the progressive rate was never imposed against any regional reserve district except the regional reserve districts in the agricultural sections; that is, all of the regional reserve districts in the South except one, that district using the progressive rate in requirement of collateral security, which indirectly had almost the same effect. In other words, as result of the exercise of the authority given in this act, the agricultural sections were penalized. The banks in the agricultural sections, in a desperate effort to protect their customers by securing financial assistance for them for the purpose of carrying their products until they could find a market for

same, were forced to pay penalties, while the speculators in the great commercial centers, through the member banks doing business with the Federal reserve bank in said districts, were enabled to secure finances without imposition of the progressive rate at the very lowest prevailing rate of discount for the purpose of speculating. The propaganda being sent out and the deflation policy offered an ideal opportunity to the bear speculator; he realized that prices were compelled to continue to fall as long as this policy was maintained. It is a travesty on justice when no Federal reserve bank of any Federal reserve district can change the rate of rediscount charged to member banks in said district unless said change is approved by the Federal Reserve Board in Washington, still the rate on call money in New York is named each day by a special committee from the New York Stock Exchange. It is conceded that the rate of discount affects prices, thus placing in the hands of the board in Washington the authority to name the rate of discount, places in their hands the power by their acts to affect every debt, every investment, and the price of all commodities. The Federal Reserve Bank in New York rediscounts with the Federal reserve districts loans for their member banks at the rate confirmed by the Federal Reserve Board in Washington, yet they charge these customers for call money the rate named by the special committee each day from the stock exchange. The rates as named, of course, have a material bearing upon the business of the entire Nation. In other words, the rate of rediscount to be charged by the Federal reserve districts on all paper, including agricultural paper, is named only as result of the action of the Federal Reserve Board in Washington. The board in Washington is not composed of representatives from the various lines of industry, as stipulated in the law, agriculture having no representative, nor any of the other important industries; therefore, this rate is named by a board without representation; whereas the rate of call money in New York is named by a board selected by the stock exchange, not being goverened by any special provision or act. I urge that this commission give the most careful thought and consideration to the necessary legislation to govern the naming of the rate of call money in New York, not permitting such power to be retained and executed under a special committee named by the Stock Exchange of New York. Frequently during the very tightest times during the debacle through which we have passed, the member banks of the Federal reserve district of New York secured enormous lines of rediscount from their Federal reserve district at the lowest rate of interest, the progressive rate never being applied, at the same time this money was placed on call at fabulous rates of interest. The rate of call money as named in New York had an effect upon the business of the entire Nation.

The CHAIRMAN. Let me ask you if you think the Federal reserve banks are fairly well representative of the agriculture and industry of the country?

Mr. WANNAMAKER. What do you mean by the Federal reserve banks?

The CHAIRMAN. For instance, at Atlanta and Dallas and Richmond. Are they representative of the industry of the country?

Mr. WANNAMAKER. I think the Federal reserve banks as they operate at the present time—and I know personally practically all of

the governors—without exception, every one that I know is a fine man. I think the greatest trouble is in the supervisory board right here in Washington. The main board here in Washington practically and absolutely controls the Federal reserve system.

Representative FUNK. Gov. Harding said here in his testimony that the Federal Reserve Board had no control over the actions of the banks as to whether agriculture was or was not discriminated against.

Mr. WANNAMAKER. Mr. Funk, I make this statement to you. I am satisfied that I am going to pay a penalty for the statements I am making to-day. I am absolutely and thoroughly convinced that the Federal reserve system as operated at the present time is practically operated from Washington by the board in Washington, and I am satisfied that if that condition continues it will be only a matter of time until you have a repetition of the Andrew Jackson fight. I am satisfied that the sooner the Federal Reserve Board and Wall Street divorce relations and you give us a financial machinery that will function for the business of the people of this country and not for any vested wealth, the better off we will be.

The CHAIRMAN. Will you tell us, Mr. Wannamaker, in view of that theory, why it was that the progressive rate was adopted in the agricultural sections?

Mr. WANNAMAKER. I am certainly glad you asked that question, sir——

The CHAIRMAN. Was that forced upon the banks by the Federal Reserve Board?

Mr. WANNAMAKER. I am glad you asked that question; that is a question that worries me no little. If it is necessary for the agricultural interests of America and the South to-day to put up every solitary dollar they have, if it is necessary for them to do that as a result of conditions that come on once in a while, I would feel I was an ingrate to kick against it. However, when requirements are imposed inflicting severe penalties in the way of progressive rates and otherwise on the member banks in the regional reserve districts of the South, thus imposing these penalties upon the people in that section and not imposing similar conditions upon other sections, I feel that it is a violation both of the spirit and the letter of the law and a violation of our constitutional rights.

If it was necessary for the agricultural interests of America to pay this progressive rate as applied against the agricultural section of the South only, I can not understand it, sir. It was not applied against any section except the agricultural section.

It would seem that in the interest of the Government itself and in the interest of the people of this Nation, if any exception was to be made in applying the progressive rate, that this exception would be applied to the agricultural sections. I find that Great Britain and other of the leading countries of the world for years and years past have given special consideration through their financial institutions to agriculture and I find that during this distressing period the policy of Great Britain and other of these countries has been just the opposite of the policy enforced through the Federal reserve in regard to agriculture. Recognizing the necessity of encouraging exports, Great Britain has guaranteed 75 per cent of the losses on exports since 1914. In addition to this, they have extended financial

assistance to the Egyptian cotton growers and other agricultural producers at special low rates of interest and under liberal terms; they have even bought cotton in Egypt when prices were forced down for the purpose of protecting the producer and stimulating the market and preventing the buyers of cotton from forcing it down as result of distressing conditions, so that it would add to the losses of the producer. I find that Great Britain in Australia even protects the producers of canary seed. Every consideration has been given to the interest of the agricultural producer of Germany and Holland through their governmental institutions and by special legislature for years past and during the present distressing periods, the financial strength of these countries being largely the result of the special consideration and protection extended to their agricultural industries and to other legitimate lines of industry. Yet no such consideration has been given to the agricultural industry of America, and as result, not only the agricultural producer but the commerce of the entire Nation has suffered. It is amazing to realize that, while we have absolute monopoly in the production of cotton—a world necessity—and that as result of the removal of the War Finance Corporation—the means of exportation of the American cotton crop—66 per cent of which goes into the foreign trade, and the cotton producer thus rendered practically without a market except in a limited way at a price far below the cost of production, it becoming absolutely necessary to carry his cotton until there is a demand for same; still, instead of receiving special consideration, he was forced to pay a penalty through a progressive rate imposed by the Federal reserve system by the authority of the Federal Reserve Board.

The CHAIRMAN. I am just trying to get at this proposition. I want to know what the facts are. You just said you considered these Federal reserve banks of the country fairly representative of the industry and the agriculture of the country.

Mr. WANNAMAKER. Surely; yes, sir.

The CHAIRMAN. Now, these very bankers that you referred to themselves adopted the progressive rate.

Mr. WANNAMAKER. Why did they adopt it, sir?

The CHAIRMAN. That is what I am trying to find out.

Mr. WANNAMAKER. I read here a while ago one of the notices that they sent out.

The CHAIRMAN. There is no way under the law that the Federal Reserve Board can compel them to adopt the progressive rate?

Mr. WANNAMAKER. The Federal reserve banks of the country got their instructions from the board in Washington. The progressive rate which was put on was put on, I am satisfied, under instructions from the board in Washington. Atlanta protested against it.

I was informed by a United States Senator from the agricultural section of the South that most positively Gov. W. P. G. Harding informed him, when he was urging the passage of the law permitting the charging of the progressive rate, that the board desired the passage of this law purely and solely for the purpose of enabling them to impose the progressive rate against the Federal reserve districts in the great commercial centers of New York and Chicago to prevent speculation; that it was necessary to have the finances for agriculture and legitimate industries, however, it was necessary to impose the progressive rate against speculation, especially under

existing conditions, so as to prevent speculation under the conditions which were existing and to assure the certainty of being in position, through the Federal reserve system, to furnish necessary finances for agriculture and legitimate industries. Most assuredly, those responsible for charging this progressive rate only in the sections referred to, thus inflicting a penalty on agriculture, should be required to furnish your commission with the reason for their acts. I recommend and urge that your commission secure detailed information concerning this and furnish the Senate and the House with said information. If the Federal reserve is required to furnish your commission with a detailed statement showing the amount of rediscounts handled for loans to farmers through the various reserve districts at present and during the regular quarterly periods for the last 18 months, it will be found that the amount shown as being rediscounted on agricultural loans includes an amount far in excess of the amount rediscounted for farmers. It includes rediscounts for loans on agricultural paper to merchants, brokers, factors, and manufacturers. In addition to this, and aside from the progressive rate referred to, member banks in the agricultural sections have been required to meet conditions not rquired in the great commercial centers.

The CHAIRMAN. If you have any documentary evidence to establish that fact the commission will be very glad to have it.

Mr. WANNAMAKER. I shall be very glad to file it with you. They have refunded the progressive rate in the Atlanta district, amounting to about $20,000.

In addition to that, and in connection with it, there were progressive rates not only on the rate of interest but also on the collateral. There are two ways of eliminating borrowing; first, by an increased rate of interest, and second, by requiring you to put up additional security. The banks had to pile up those securities, and they finally got a notice, frequently like this: "We note that you are in a very extended position. Can you not liquidate some of your loans? It will be necessary to request that your board of directors give their personal indorsement on your paper unless you can reduce same." When this deflation was on in 1919 and 1920 the bankers in the agricultural sections were receiving letters monthly urging reduction of loans. The loans to agriculture this year, based upon last year, are almost infinitesimal. Throughout the cotton belt a man has not been able to get money for producing his crop.

The CHAIRMAN. Does this extended condition of the banks in the agricultural sections as to the amounts which they owe to the Federal reserve banks indicate that there has been or has not been an extension on the part of the Federal reserve banks to the member banks?

Mr. WANNAMAKER. I find in connection with that that one bank in New York——

The CHAIRMAN (interposing). Can you not answer that question?

Mr. WANNAMAKER. What is your direct question, Mr. Chairman?

The CHAIRMAN. I am asking you whether the fact that these banks are extended and that they have been charged large sums by the Federal reserve banks indicate that the Federal reserve banks were extending credit to member banks or not.

Mr. WANNAMAKER. The amount shown as loaned on agriculture through the Federal reserve banks in the agricultural sections includes rediscounts for loans made through member banks far in excess of the amount loaned to the farmers, including loans to various other lines on agricultural products. In addition to this, the member banks in the agricultural sections were constantly receiving letters urging them to reduce their loans. If it was not for loading the files of the commission, I could furnish volumes of letters confirming this, showing that letters were sent out at regular intervals. It was as result of these constant letters that the holders of Liberty bonds were forced to sacrifice same, after the market value of same had been forced down, as result of the raising of the rediscount rate. In addition to this, letters were received from the Federal reserve districts informing the member banks that unless their lines of rediscount were reduced, it would be necessary to require of them to give the indorsement of their board of directors. These instructions were evidently issued from the board in Washington requiring the Federal reserve districts to pursue this course.

I do not think they were extending credit to the member banks that should be extended. I will explain that in one second. Recently paper went in for loans on cotton. The warehouse receipt was dated 1919. This statement came back: "It will be necessary to send a statement on cotton loans that this money is to be used for harvesting and marketing the coming cotton crop." Aside from that, this warehouse receipt is dated 1919.

That matter was taken up with the farmer, and his attention was called to the fact that it appeared he was carrying his 1919 cotton. He made this statement, "Of course I am carrying my cotton from 1919, because I could not sell my low grades except by separating it. Besides, I have a right to carry my cotton." And at the same time that letter came in the packing companies were carrying meat products that they had been carrying for years and years in the packing plants. Do you mean to tell me that the agricultural producer has not a right to carry his product, a commodity that is nonperishable, while the people who are carrying meat can borrow money on it?

The CHAIRMAN. I think he has a perfect right to borrow on it if he can. There is some question whether that paper is eligible for rediscount under the law.

Mr. WANNAMAKER. In the cotton section there is a peculiar situation with reference to this. Since 1914 the cotton has been accumulating there, and the world has never understood it. They thought we had the opportunity of selling all this cotton, but we could not. Of course, it is only a matter of time when the market will open up. In the meantime, until that time arrives, if you force the sale of cotton what will happen? I see sales of cotton that do not bring warehouse charges. I saw a bale of cotton that weighed 600 pounds sell for $3, half a cent a pound. I know of a case where a man went to the warehouse and said, "I just want to tell you that I will not pay any more warehouse charges; I can not sell that cotton for enough to pay the charges."

Representative TEN EYCK. It was brought out here at a previous hearing that all the reserve banks did not bear the progressive rate.

Mr. WANNAMAKER. Yes, sir; that is correct. Not all of them did.

Representative TEN EYCK. Why was that?

Mr. WANNAMAKER. I could not tell you. I wish you gentlemen would determine that.

Representative TEN EYCK. Did the reserve board discriminate in that?

Mr. WANNAMAKER. The only place the progressive rate was put on was in the South Atlantic and Gulf States, in the cotton belt. Richmond put on a graduated rate on securities, and we had to put up additional securities. On top of that, and in connection with it, every possible effort was used to induce the holders of the paper to liquidate. How could you liquidate——

Representative TEN EYCK. That effort was made by the Federal reserve bank?

Mr. WANNAMAKER. Yes, sir. I have a letter here in which this statement was made, that if the holder of cotton does not accept the opportunity to sell his cotton, if it arises, based upon the information we have—and we think it is about as good as anybody's—we are satisfied that he can call himself a fool in a short while.

The CHAIRMAN. Can you produce that letter?

Mr. WANNAMAKER. That is from an official of the Federal reserve bank——

The CHAIRMAN. I say, will you produce that letter?

Mr. WANNAMAKER. Yes, sir. That letter was written this spring. In addition to that I had this very peculiar experience, if you will permit a little personality to enter into this. The firm of Banks & Wimberly Co., a general mercantile firm of which I am a part owner and an executive officer, recently got a letter from the board, making this request:

> Will you please give us in confidence, for the purpose of preparing a report to be issued, all information you possibly can bearing upon general conditions in your section and what the outlook is for meeting the situation? The information you give bearing upon these matters will be strictly confidential.

I answered that letter in practically this way. Concerning present conditions the general situation is due to the mistaken policy of the Federal Reserve Board. Secondly, if this policy is not reversed these conditions will grow much worse. Third, we feel that the big trouble is inability to market crops, and the destruction of the War Finance Corporation. Foreign countries could use these raw products, but we are unable to get them across to them. Conditions are growing steadily worse, and unless these conditions are speedily relieved history will repeat itself.

A few days after that I got an eight-page letter from the governor of the Federal Reserve Board taking issue with that statement which was furnished by me for the purpose of preparing this report. He took it up by sections and analyzed it. For instance, he said:

> Referring to your statement that there are countries that have factories and industries that use these raw products, that is not correct. Referring to your statement that the conditions are due to the Federal Reserve Board, the Federal Reserve Board is no more responsible for it than they are for the law of gravitation.

I made no attempt to reply to that letter, because I was utterly amazed to receive it. Some days after that I was called up by one of the bankers who said, "I notice they are circularizing your letter. The Federal Reserve Board is sending out a letter, and we recognize

it for two reasons: First, they state that your letter was written by a mercantile system with two banks; and secondly, we can recognize the language." Other bankers began calling me up, saying, "Why is this letter being sent out?" Several sustaining members of our association to whom we had sent a referendum to vote on a question that came up for decision, inclosed this letter back to me.

I sat down and wrote to the president of the reserve board, and told him I was utterly at a loss to understand his action, that I could not understand why he had printed this letter which was written in reply to a request for a strictly confidential statement for the chairman of the board; that he had printed it and circularized it generally to the bankers; that everybody recognized it as my letter, and I thought he had put me in an unfair position; that I had no objection, if he wanted to print a letter, to writing a letter for him to print, but I did not think he had given me a square deal, and that I wanted to insist that he give me the privilege of replying to that letter, my reply to be sent out to the same mailing list.

We got a letter from him, and he said, "I have received so many letters like yours that I thought it was a good idea to correct those wrong ideas. I happened to pick up your letter, and it occurred to me that it furnished a good example. I note you want to reply to the letter and circularize your reply in the same way. We will do this with this understanding: We feel you should not mention in your reply that the letter you sent to us was in reply to a request for a confidential report."

I said, "If we do that, how will it be understood? It will appear that we are entering into a controversy with the board."

Copies of that letter were sent to me the other day from Virginia, from North Carolina, and from three or four different States. Anything like that, the circularization of that letter, contributes, of course, toward the destruction of confidence.

There is one other matter I want to call your attention to. It might be said concerning the testimony which I have given here that I have some personal feeling in the matter. I would feel, gentlemen, that I had mistreated you if I came up here and imposed on you to that extent. I have only one desire in this matter, that I may, if possible, contribute in some way toward changing these conditions before it is too late. It is my sincere conviction, as a result of years devoted to this work, that unless these conditions are relieved they are going to become far more serious. I am satisfied that unless there is some relief from these conditions that exist to-day the people of America will pay the penalty. I am satisfied you will find the production falling off to such an extent that almost no calamity could measure the penalty that is going to be forced upon the people of this country. You can not pay debts without production.

I have referred to the testimony concerning the conference up here in September. Personally I would not refer to that at all, but there were 60 men on that committee, and I felt they should be placed right in the matter.

Now, I have corresponded with Gov. Harding since 1914 and have engaged in a great deal of work with him. I have received letters from him recently. I have one letter here I want to read.

Mr. Chairman, do you know the date of the hearing that we are now in controversy about, as to the September convention?

The CHAIRMAN. I think it was August 4 or August 5—August 5, I think.

Representative FUNK. It was the 4th and 5th.

Mr. WANNAMAKER. All right, sir. Here is a letter from Gov. Harding of August 6:

FEDERAL RESERVE BOARD,
Washington, August 6, 1921.

MY DEAR MR. WANNAMAKER: I have your letters of the 3d instant and regret exceedingly to learn of the unsatisfactory condition of your health.

I am as anxious as you are to see present distressing conditions in the South relieved, and will continue to do, as I have always done, all that I properly can do to aid. I hope you will not be offended, however, when I remind you that it is not always practical to employ the methods which you propose. Yesterday, in my testimony before the Joint Commission of Congress on Agricultural Inquiry, I discussed the cotton situation in 1919 and 1920 very fully and read to the commission several of the letters which passed between us during the year 1920. These letters will go in the record, and I presume you will see what I had to say when the report of the commission is printed.

It may not have been practical for you to act upon the suggestions I made to you repeatedly during the year 1920, but I regret, none the less, that those suggestions were not acted upon. The underlying cause of the present situation is found in our inability to market our surplus cotton abroad. Cotton, more than any other commodity, is dependent upon the export demand, and the trouble last year was that the South had much more cotton on hand or in prospect than was needed for domestic consumption, and while there is no doubt that foreign countries were in need of cotton and cotton goods they were unable, because of their lack of capital and credit, to convert their need into an economic demand.

I hope that you will soon recover your usually good health, and I think that we can discuss these various matters in which we both feel so deep an interest to better advantage in a personal interview than we can through correspondence.

Very truly, yours,

W. P. G. HARDING

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

Now, here is his letter of June 30:

FEDERAL RESERVE BOARD,
Washington, June 30, 1921.

MY DEAR MR. WANNAMAKER: There is a good deal of talk here about organizing a bankers' cotton-loan pool of $100,000,000 for the purpose of assisting in the orderly marketing of cotton this fall. This movement seems to have originated in Cabinet circles, and I am not fully informed as to the lines along which it is proposed to organize and operate the pool. Secretary Hoover, of the Department of Commerce, and Mr. Meyer, of the War Finance Corporation, seem to be the leading spirits.

It occurs to me that if a pool is organized it is important that adequate funds be raised and that the loan valuation, based on middling cotton, be satisfactory. If the pool should be organized with hard and fast rules and with a loan valuation for middling cotton of, say, 5 or 7 cents a pound, I wonder what the effect would be upon the market price of cotton. I recall that in 1914, when the cotton pool was finally organized late in November of that year, with a loan valuation of about 5¾ cents per pound, only about $25,000 of loans were actually made. The price of cotton, which had been nominally around 8 or 9 cents a pound early in October, soon settled down to 6 cents, and the bulk of the 1914 crop was sold at that price or less. The organization of a cotton loan pool would be attended, of course, with a lot of publicity, and it may be that if a low loan valuation is fixed the effect upon the market price of cotton might be bad.

I would be very glad to have your views upon this subject and also some expression of your opinion as to the amount of money that ought to be raised in order to make the plan effective. If you can spare the time, I think it would be well for you to come to Washington and discuss these matters with the gentlemen who will probably take an active part in organizing the loan fund in case the plan should be definitely decided on. In case you do come to Washington I hope you will let me know, as I would like very much to discuss the situation with you from all standpoints and at considerable length.

Very truly, yours,

W. P. G. HARDING

Mr. J. S. WANNAMAKER,
American Cotton Association, St Matthews, S. C.

Here is my reply to him:

JULY 2, 1921.

GOV. W. P. G. HARDING,
Federal Reserve Board, Washington, D. C.

MY DEAR GOV. HARDING: Your letter of June 30 has received my careful attention, concerning the organization of a bankers' cotton loan pool of $100,000,000.

If the Federal reserve would grant a rediscount rate of 4 per cent on Liberty bonds and 4½ per cent on agricultural and commercial paper, and would renew agricultural paper until confidence can be restored, markets opened, and would grant more liberal extensions of credits, it would not be necessary to form this pool. In fact, this action on the part of the Federal reserve, I think, is a national and world-wide necessity.

Under existing conditions, agriculture is paralyzed, commerce is stagnant, and confidence is absolutely destroyed. These conditions can only be remedied by the action indicated above.

Based upon the gold reserve, the Federal reserve system could extend additional credits for many times the necessary amount to bring relief to agriculture and commerce, and to completely restore confidence, and I am utterly at a loss to understand why this action is not taken by the Federal reserve system.

Present conditions have practically destroyed the purchasing and debt-paying power of a large portion of our population. There is no market for agricultural products except in a limited way and at about one-third the cost of production. Millions of people in Europe and Asia are in desperate need of our raw products. They own lands, forests, mines, and factories and they are an industrious people. On our side, we are being smothered with the very products which these people need, not from overproduction, but from underconsumption. Unless credits are liberalized in America, how will it be possible to ever average to relieve this situation?

If it should be known to-morrow that the Federal reserve system would extend relief as above indicated, it would have an immediate stimulating and beneficial effect upon agriculture—in fact, upon every line of business in the nation, and would eventually have a beneficial effect on foreign countries.

Such action would immediately remove the necessity for the organization of the bankers' cotton-loan pool.

The organization of this pool has been postponed, in the hopes that relief would be extended through the regular financial machinery, as outlined above. Since the proposition to organize the pool has been under consideration, a number of the leading bankers in the south have urged that we again lay this matter before the Federal Reserve Board, and use every effort possible to induce them to grant the relief as outlined above. It seems to be the consensus of opinion that if the situation was fully understood there is no question but that the Federal Reserve would immediately put into effect the relief named above.

Since receipt of your letter, I have been called up by long-distance phone by two of the most prominent financiers of the South, both of them taking the position that the key to the situation is in the hands of the Federal reserve system and that they feel convinced that the necessary relief will be extended if the true condition is made clear to the Federal Reserve Board.

Both of these financiers, however, unhesitatingly state that if it is impossible to get the relief from the Federal reserve system, then we must use every effort possible to organize a bankers' cotton-loan pool, with at least $100,000,000, for the purpose of assisting in the orderly marketing of cotton, and it is of vital importance that this relief be secured without delay. Cotton is being forced upon the market, regardless of the fact that there is only a limited demand for same and at about one-third the cost of production, and the differences between grades are ruinous. In addition to this, the farmers are unable to secure necessary credits for the cultivation of their crops. If it is impossible to secure relief otherwise, realizing the dire necessity of relief, to prevent practically universal bankruptcy, then we must concentrate our efforts for the purpose of relieving conditions as far as possible.

I note your position concerning the effect the organization of this pool would have upon prices. England has been extending loans to the Egyptian cotton growers since early last fall at 15 cents per pound, basis middling. In addition to this, the English Government furnishes finances for the purpose of purchasing cotton from the Egyptians. Loans are made at 80 per cent of the market value, the Egyptian cotton growers not being required to put up additional margin, as under the purchasing plan it has resulted in raising the price of the staple. In addition to this, the English Government has guaranteed 75 per cent of the losses incurred by exporters since 1914, and have recently raised it to 85 per cent. My information is that the losses have been extremely small.

I would like very much to have the benefit of your views concerning the probability of relief being extended by the Federal reserve system as outlined above. If it is impossible to secure this relief by a lowering of the rediscount rate and by more liberal extensions of credits—as is certainly justified by the gold reserve—then it would not be necessary to form the pool. If this relief can not be secured from the Federal reserve, then, unless some better suggestion can be made, I see no other course except to form the bankers' cotton loan pool.

I wish very much it was possible to accept your invitation and come to Washington and discuss the situation with you from all standpoints and at considerable length, and, regardless of the fact that both my private business affairs and the work of the association necessitates my giving them my undivided attention and putting forth every effort in my power to weather the existing conditions, still, I shall make a special effort to go to Washington for the purpose of discussing matters with you if you feel, as a result of such action, that plans can be put into effect and force that will bring relief to the present distressing conditions; and I might state right here that I am fully convinced that the seriousness of the conditions existing are not fully understood. We have had many cases to come under our observation of farmers being forced to sell their cotton on account of the inability to secure finances for same, the cotton failing, in many cases, to bring in excess of the warehouse charges and interest, on low-grade cotton.

The success of our campaign for acreage reduction (which you will note from the Government report is an acreage reduction of 28.4 per cent and a drastic reduction in the use of commercial fertilizers) is largely due to the fact that the farmers and allied business interests realized that their very existence was at stake, and that their commercial lives are in jeopardy, and that unless relief is secured they are facing universal bankruptcy.

We have been requested by leaders, not only from the South but from other sections of the Nation, to immediately call a great conference and arrange to put on a systematic campaign for acreage reduction in cotton for the next five years, and to arrange for the handling of cotton now on hand so that it will not be forced out of the hands of the producers, regardless of present conditions; also to arrange for the selling of cotton cooperatively under the California plan, it being pointed out that it will in this way be possible to recoup some of the enormous losses which have been incurred as a result of the fearful depression in prices.

We have been urged by a number of the leaders both the South and West (and among these leaders are some of the biggest bankers in America) to form a relation between the agricultural interests of the North and the West for the purpose of jointly cooperating for mutual protection in financing, handling, and marketing our agricultural products, it being urged that this is vitally necessary at this time.

Realizing the long experience that you have had in these matters and the great interest that you take in same, and realizing that the relief requested from the Federal reserve is in your hands and largely left to your decision, I am taking the liberty of writing you at length as outlined above.

Assuring you that your attention and reply will be appreciated, I beg to remain, with all good wishes,

Yours, very respectfully,

J. S. WANNAMAKER,
President American Cotton Association.

Now, this is from Gov. Harding to me personally, on July 7:

JULY 7, 1921.

DEAR MR. WANNAMAKER: I acknowledge receipt of your letter of the 2d instant, and would state that after attending several conferences in the last few days, I feel hopeful that there will be some developments in the near future which will give not only hope and assurance but actual, solid relief to the cotton interests of the South. Some very powerful influences are hard at work in this direction and you have no doubt been advised of what has been going on. I shall be disappointed if we do not receive official and public notice of these favorable developments in the course of a few days. I do not feel at liberty at this time to give you the details of what I have heard and am sure you will agree with me that premature publicity would be undesirable. I may say, however, in order to prevent any misunderstanding, that I do not think that the abnormally low discount rates at the Federal reserve banks suggested by you are advisable at the present time for reasons which I could explain to you better in person than I can in a letter.

There seems to be a general opinion here that loans on cotton should be made on the basis of a certain per cent of the market price rather than on an arbitrary loan valuation. The trouble with an arbitrary loan valuation is that the values which would be satisfactory to some might be too high and the values advocated by others too low. Without question something should be done to stiffen the backbone of the cotton people and prevent an avalanche of cotton from coming on the market, but in the meantime efforts should be redoubled to arrange for sales abroad.

With kind regards, I am, sincerely, yours,

W. P. G. HARDING.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews, S. C.

FEDERAL RESERVE BOARD,
Washington, July 8, 1921.

DEAR MR. WANNAMAKER: I acknowledge receipt of your letter of the 6th instant, and would state that there is no question that the Federal reserve banks have the ability to rediscount paper to the amount named, or more if necessary, under the terms prescribed by the Federal reserve act. While the Federal Reserve Banks of Richmond and Dallas would be considerably below their required reserves if put on their own footing, they will have no difficulty in maintaining their reserves by rediscount with other Federal reserve banks. If you will read sections 4 and 13 of the Federal reserve act again, and read them carefully, you will, I think, realize that the Federal Reserve Board has no authority to make a binding statement such as you suggest. The board is given the power to define eligible paper in accordance with the terms of section 13, but the directors of the Federal reserve banks are charged with the administration of their respective institutions. They have the sole power to pass upon eligible paper offered their respective banks for rediscount, and the board can not force them to take paper which may be in their opinion unsafe or undesirable.

The Federal Reserve Bank of Atlanta has at the present time a few points more than it is required to carry as reserve without rediscounting, and the Federal Reserve Bank of St. Louis has a reserve of something over 50 per cent. About one-third of the member banks in all these districts are not rediscounting at all, and of the two-thirds that are rediscounting probably more than half are rediscounting very heavily. They are carrying loans in larger volume, no doubt, than their own directors would like to have them carry, and I know of some member banks which are very reluctant to add to their contingent liability as indorser on any terms. They probably have in mind the efforts made by the Cuban banks last year to carry the sugar planters, and you know what the plight of the Cuban banks is at the present time.

The only bank in the system which still maintains the progressive rate is the Federal Reserve Bank of Kansas City, which has a normal rate of 6 per cent, an intermediate rate of 7 per cent, and a maximum rate of 8 per cent. The contract rate which may be legally charged in every State in the Kansas City district is from 10 to 12 per cent. The Federal Reserve Banks of Richmond, St. Louis, Atlanta, and Dallas all have flat rates of 6 per cent. Consequently, I do not see what advantage would be gained in having an understanding that any new loans are not to be counted as part of their regular line. No new loans would be made by these banks except with the indorsement of the member banks, and the liability is there whether it is regarded as part of their regular line or not. I see no objection, however, to your taking up the proposition with the governors of the Federal Reserve Banks of Richmond, Atlanta, Dallas, and St. Louis, for they sit with their directors in all meetings and it is assumed that they are influential in determining the policies sanctioned by the directors. The lending power is in the hands of the banks and not of the board, and I think it would be unwise for the board to announce a policy which it has no authority under the law to enforce.

A good many people have been laboring under the impression for a long time that we have a central bank in this country. This is not the case. Each Federal reserve bank is a body corporate and as such each bank, among other things, is authorized to "exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this act and such incidental powers as shall be necessary to carry on the business within the limitations prescribed by this act. Every Federal reserve bank shall be conducted under the supervision and control of a board of directors. The board of directors shall perform the duties usually appertaining to the office of directors of banking associations and all such duties as are prescribed by law." Nowhere in the act is the Federal Reserve Board given power to pass on credits and maintains no credit files, and the board itself is not organized as a banking institution but is merely a supervisory body, having general supervision

subject to the express reservations in section 4 of the Federal reserve act. It seems to me, therefore, that matters referred to in your letter should be taken up directly with the directors of each Federal reserve bank in the cotton section.

Very truly, yours,

W. P. G. HARDING.

Mr. J. S. WANNAMAKER,
President American Cotton Association, St. Matthews. S. C.

I offer those letters to go in the record. They are letters written recently, some of them written since this testimony was given here. Those letters bear on very important matters. A great volume of letters has been offered in Gov. Harding's testimony concerning the matters he was discussing, and for the purpose of setting myself right in the matter I wish to file these letters for the record.

Representative TEN EYCK. What happened in relation to those recommendations?

Mr. WANNAMAKER. Why, Mr. Ten Eyck, there is a straw man in that. In the first letter that I wrote I stated that we could not sell even a good grade of cotton, and Gov. Harding then wrote me urging that we try to sell the good grade of cotton and not impose upon the banks, on account of the extended condition of the banks.

Representative TEN EYCK. You do not understand me. What was the general result of what they were endeavoring to do and what you recommended to him?

Mr. WANNAMAKER. As a result of that—the Federal reserve representatives had met up here, and statements had been given out to the press that they would take care of agricultural paper—I think cotton was the way it was stated—and all these finances would be furnished for marketing. Following that, however, the district boards issued statements—for instance, the Richmond bank has sent out a statement which is extremely hard to understand. In this they make the statement that money will be furnished in order to enable the farmer to market his crop that is growing. They were asked for an explanation of it, and the understanding came that they were not going to loan on any cotton at all except for the purpose of marketing this crop that was in the field.

Now, the statement was made, "You had an opportunity to sell this cotton. Why didn't you sell it?" "Why," the producer said, "I had the privilege of holding my cotton if I wanted to. But aside from that I could not sell it."

The CHAIRMAN. Of course, there is nothing to prevent a national bank or a State bank from making a loan on cotton that is 10 years old?

Mr. WANNAMAKER. No, sir; but they will not rediscount paper.

The CHAIRMAN. That is a matter of law rather than a matter of policy on the part of the Federal Reserve Board, is it not? That is a question of what the law says is eligible?

Mr. WANNAMAKER. The law does not define the eligibility at all, concerning that part of it.

The CHAIRMAN. I rather think it does.

Mr. WANNAMAKER. No, sir; I am pretty familiar with the act, and I think you will find it does not do that. That is the ruling of the board.

I wanted to make that clear. They are discounting some loans on old cotton, for the purpose of marketing the incoming crop.

The CHAIRMAN. There is nothing in the Federal reserve act, so far as I know, that contemplates the rediscounting of loans as a basis for holding the crop.

Mr. WANNAMAKER. But, Mr. Chairman, if a producer comes to you with a warehouse certificate for cotton that he produced in 1919, do you say that paper should not be eligible for handling at the bank?

The CHAIRMAN. For rediscount?

Mr. WANNAMAKER. Yes, sir.

The CHAIRMAN. I do not know.

Mr. WANNAMAKER. The packers handle it in carrying meat in the packing establishments for years.

The CHAIRMAN. They may be getting loans from the national banks.

Mr. WANNAMAKER. No, sir; they are handling it on rediscount.

Representative TEN EYCK. With the reserve bank?

Mr. WANNAMAKER. Yes, sir.

The CHAIRMAN. Where?

Mr. WANNAMAKER. A great deal of this paper that we figure is being carried by agriculture—well, a considerable part of it is on agriculture, but also to the middleman or to the merchant. A great part of it is not to the original producer at all. If the producer goes to sell his product now, whom will he sell to? He has no buyer except the middleman, who is going to hold it and make a profit upon it. Now, the middleman will take that cotton and hold it; you know, cotton passes through about 13 unnecessary hands. If they are holding out for a profit now, why not let the producer have it? The only way he could sell it was to sell it into the hands of the middleman.

Representative TEN EYCK. When does cotton change its place of storage after it has changed hands from the producer to the middleman? In other words, does the cotton actually have to be moved from one storehouse to another when it changes hands from the producer to the middleman?

Mr. WANNAMAKER. I am glad you mentioned that. Cotton carried on hand does not show the grades. Consequently your entire supply of cotton—I do not know whether you have the same condition with wheat or not, but the entire supply shown by the Government is based on the supply that the world can get. But the New York Exchange only handles eight of those grades. In those grades is a great deal of unspinnable cotton. The economic handling of it is 50 years behind the time. When that cotton is sold there is a sample taken out of the warehouse, and every time it is resold it is sampled and weighed again.

Representative TEN EYCK. The tobacco man has to have his tobacco graded before he can borrow on it?

Mr. WANNAMAKER. Yes, sir; he is in the same predicament we are in. He can not sell his tobacco to-day.

I had this happen quite recently. A man sold a steer to the butcher under these present conditions, and he decided he would like to keep one quarter of it. The butcher said, "All right; you owe me $2." The man said, "I want to sell you the steer, and I want to keep one quarter, and I want you to pay me the difference." The butcher said, "The difference between what you owe me at retail

prices and what I owe you at wholesale prices is $2." He was absolutely unable to sell it and buy back a quarter of the beef except at a heavy loss.

There was one case of a man shipping 50 bushels of corn in a car. When he got there the freight on the 50 bushels was $125, on account of this new provision. He came to me and said, "I am in an awful fix." I told him, "You can buy the corn for less." "Well," he said, "I can not get the money to buy it, and I can not get the money to pay the freight."

The truckman's crop rots out in the field. The tobacco man is getting only a small proportion of his cost. I saw one time in the market there when there was not a cotton buyer except a Negro who was buying for speculation.

Representative FUNK. Here is an instance in my own experience. I fed a bunch of cattle last winter, and after I had fed them and fattened them the cattle brought $1,500 less than I had paid for them.

Mr. WANNAMAKER. Yes; we have a great deal of that down there. We have a lot of cattle down there that we absolutely can not pay the freight on.

How do we explain this condition existing here when we compare our condition with that of other countries during the war? I can not understand to save my life why we should not be in far better condition than they. I can see this solution, that the removal of the War Finance Corporation, whereby the means of transportation and export was closed, was a gigantic blunder. Following that came the high discounts, the restriction of credit, and the contraction of the currency. There was a restriction of the credits in this country of nearly $34 per capita within 12 months.

Then there is the excess profit proposition. Profits must go lower; profits are too high. You drive the buyers from the market. The merchants to-day, if they take their stock at replacement value, are practically broke. You have not got a buyers' strike; people simply have not got the means whereby to buy.

In addition to that we have practically one-third of the gold of the entire world. What would be the benefit of piling up all the gold of the entire world and not using it as a medium for lowering rates of discount and for a circulating medium?

Representative FUNK. The governor of the Federal Reserve Board says if there is any restriction of credit in the agricultural industry it was not through any action of the Federal Reserve Board.

Mr. WANNAMAKER. He is perfectly welcome to his opinion, and so am I, and so are you to yours. But the facts are incontrovertible. Your loans are $1,000,000,000 less than they were a year ago.

The CHAIRMAN. We had a very high gold reserve in 1916?

Mr. WANNAMAKER. We have one-third of the gold reserve of the world. Here is another thing, and I am glad you mentioned that. There is no country on the face of the globe that will buy goods on the American market if it can buy anywhere else, on account of the accumulation of gold here and the drastic deflation. They will buy anywhere else instead of buying in America You have put up a gold barrier between them and us. Talk about it being a beneficial barrier; I would not like to be on the outside looking over here with one-third of the gold of the world accumulated on this side, with bankruptcy rampant and suicide here and there. When you ac-

cumulate the gold in one spot it affects civilization and commerce. That is a situation you can not get around. I know from first-hand information of conditions in other countries. Following the cessation of hostilities we had an opportunity to get the world trade——

The CHAIRMAN (interposing). If conditions are better over there, they ought to be able to sell us goods and get some of this gold back.

Mr. WANNAMAKER. But they have no buying power. If you will take up world conditions you will see how they are situated. If you will look at India to-day you will see a country that has gotten in very bad condition. They will not trade with the mother country. They are returning all of the war medals.

Representative SUMNERS. Bank officials say they are rediscounting all the paper that is tendered to them for rediscount. They say they are not restricting member banks in that regard; they say they do not go any further than good judgment suggests in the matter of refusing any paper.

Mr. WANNAMAKER. I sent a paper out, largely in the South but also in the West, and I want to tell you that the bankers are absolutely afraid of their shadows. That is the condition with reference to them.

Representative SUMNERS. You mean they are afraid they might be called?

Mr. WANNAMAKER. Yes, sir. On top of that they are not sending a single piece of paper they can help sending. I am very much afraid the statements I am making to-day are going to cause me trouble; I hope not, but I am here to tell you that the banks are absolutely afraid of their shadows. There is autocratic rule down there, and they are afraid to call their souls their own.

Representative FUNK. Do you mean that they are afraid the Federal Reserve Board will call in rediscounts?

Mr. WANNAMAKER. Yes, sir; that is exactly what I mean.

Representative FUNK. If they have a bigger gold reserve than they have had for years why should that be so?

Mr. WANAMAKER. Yes, sir; we have one-third of the entire gold reserve. They could issue three billions of dollars of credit to-morrow based upon that.

Representative FUNK. Isn't there an unnecessary alarm on the part of the bankers, if that is so, because the banks are in fine shape?

Mr. WANNAMAKER. But if you get shot at a few times you are afraid you will be shot at again. If you get a command: Reduce your loans, and if you do not reduce your loans get the indorsement of your board, you will be afraid to move. The secretary of my State association shot his brains out, and in Georgia it was the same way. Men can not stand the financial strains that come upon them, especially when they have the responsibility of being in charge of other people's money. When they know they may have to put up additional collateral from time to time, and can not get any more collateral to put up, you can imagine the condition they are in.

Representative SUMNERS. Do you mean that the Federal Reserve Board or the bank in the district is requiring that?

Mr. WANNAMAKER. I do not mean that my district is doing that, but the Federal reserve bank is requiring it generally. That is true and there is no use of their denying it. It is a part of the policy of drastic artificial deflation, and is unnecessary; it is a commercial crime. As a part of that policy rediscount rates were raised.

I am satisfied it got loose from them and went really further than it was intended to go, and now to stop the proposition is a question. What happens? A bank will constantly be getting letters: Reduce your loans. Then the bank will get a letter: Get the indorsement of your board of directors. I have seen letters of both kinds, and I know what I am talking about.

Cotton is nonperishable. A person can keep it for 50 years. Must I put up additional collateral in order to get paper rediscounted, and after that must the bank give its indorsement?

I am here to tell you, as an American citizen, of the actual conditions that exist. The gentlemen of this commission are handling the most important subject before the people of America to-day; and if there is not relief to agriculture there will be the greatest disaster that ever occurred in this country.

Representative SUMNERS. The banks require more than a dollar for a dollar of collateral?

Mr. WANNAMAKER. Yes, sir.

Representative SUMNERS. Where they have cotton paper tendered as the basis for rediscount and the valuation of the cotton is somewhere near the market value at the time of the tender?

Mr. WANNAMAKER. Yes, sir. The banks have one and a half and in some cases two for one. Let us see if there is any wildcat banking in this proposition. It has been in vogue in Germany for 50 years. Agricultural products finance themselves, not for full value but has to be margined 80 per cent. Currency is issued upon it, and immediately upon sale the currency is canceled. I begged them in a letter not to hold down upon the banks, not to make them hew to the line on what they are getting, but to permit cotton to a certain extent to finance itself. The banks have one and a half and sometimes two for one.

A banker told me the other day: "I have not got in my safe but $16,000 worth of paper. I have put practically around one and seventy-five hundredths to two for one. They have agreed to release some of that paper and hold the other."

I know of another bank that has one and a half to one, and in addition to that has Liberty bonds for a certain amount. "Liquidate," they say. "Who are you going to sell to?" If my friend, Mr. Byrnes, can tell me some one to sell to when there is no buyer, he can be President of the United States. Manufacturers are not buying; at least they are only buying from hand to mouth.

Representative SUMNERS. You can not dispose of this commodity in quantity in that kind of a market?

Mr. WANNAMAKER. No. Gov. Harding's definition of orderly marketing is for cotton to be supplied to the market as needed by the legitimate consumer.

Let me get myself perfectly clear on this proposition. I have recommended what? I said I stand for the Federal reserve act. I have urged that the committee indorse and recommend lowering the rediscount rate on Liberty bonds. I sold Liberty bonds during the war with the statement that they were going to be kept at par, and when my Government buys in its bonds at a deflated price I assume they would be pursuing exactly the course I would if I bought in my note at less than the dollar for dollar. I say the bonds of the people should go back to par and let them carry them. The bonds

depreciated because the rate of the bank is 6 per cent, while the bonds only draw 4 per cent. The bonds are drifting into the hands of the wealthy.

The CHAIRMAN. Would we not be charged with the policy of squeezing out the bonds from the little folks, and now when the big folks have them putting them back to par?

Mr. WANNAMAKER. Yes, sir. But I think that can be explained in this way: If you put a rate on Liberty loan bonds, say, 3½ per cent, it immediately brings up a mandatory situation and helps the price of agricultural products. The banks have made enough to grant a low rate. Two hundred per cent is enough for a while. They had a meeting in New York the other day, attended by every line of industry represented in the cotton business from the banker down. What did they recommend? They passed a resolution urging every bank in the Federal Reserve Board to lower its rate on bonds, I think, to 3½ per cent or 4 per cent. On agriculture, I think, it was to be not more than 4 per cent.

From May, 1917, to May, 1919, the country was thrown by the Treasury every six months into the throes of a Liberty loan campaign—five loan campaigns in two years. It is estimated that 20,000,000 people or more subscribed for some or all of the loans, and that 2,000,000 people took part as workers in one or all of the campaigns. During these two years, covering the whole period of our participation in the war and six months after the fighting stopped, no one in America was ever allowed to forget that there was a war, that he had a part in it, that that part included buying Liberty bonds or Victory notes, and that to do so he must save money. The first, second, third, fourth, and Victory loan campaigns stand out as the most magnificent economic achievement of any people—the achievement of 100,000,000 united people inspired by the finest and purest patriotism. These Liberty loans were the principal instrumentality in raising cash. As result a stream of gold was poured into the war chest both at home and abroad fighting the war to a successful completion. People bought bonds far beyond their means. It was the understanding in the sale of these bonds that in one sense the people were loaning the Government their credit; that they would be given amply time to pay for the bonds, that liberal extensions were made through the banks for this purpose. The raising of the rate on Liberty bonds to 6 per cent and 7 per cent, of course, forced valuable bonds down. The purchase of bonds by the Government at a depreciated value, whereby they settled the debt for the bonds at a saving to the Government of around $100,000,000, seems almost sacrilege when we consider that those bonds were bought from people who purchased them as a matter of purest patriotism and upon the assurance that loans on the bonds would be carried for them until the principal could be discharged and the bonds paid for, and of course, the purchaser as well as those who were selling the bonds, fully understood that the Government bonds would always be gilt edge; it was never once intimated, nor could anyone be induced to believe, that the rate would be raised to such a point as would depreciate the value of the bonds as has been done.

The CHAIRMAN. Does not that mean that instead of the Federal reserve bank making the money the national banks would make the money?

Mr. WANNAMAKER. Let us concede that the national banks will make the money. They have been running long enough without making money. If you jeopardize your banking institutions, as they are being jeopardized, I do not know what will happen. And if you continue present conditions in the matter of agricultural commodities you will see where the panic will go. They say in this deflation matter that if you lower the interest rate it will have an effect upon commodity prices. I grant that. All the circulars state that. They say if you raise the rate it will lower prices, and if you lower the rate it will raise prices. But I take this position, that when the Federal Reserve Board adopts a policy that affects every investment in this Nation it should be handled differently than it is handled now. It should be handled by a more democratic board than handles it now, and there should be a larger board. I think we should have a board of 12 members. I think the various industries should be represented. That is true in England and in France.

Now, Mr. Chairman and gentlemen of the commission, I am very sorry to have taken up so much of your time. I wish to express my appreciation for the patience you have shown me. I have been before a great many committees and commissions and have never been treated more patiently. And I have been in a sick condition to-day, and appreciate the consideration shown me.

I am reminded of one thing, that the chairman asked about: If you lower the interest rate the national banks will probably make what the Federal reserve banks are making now. I have no desire in urging a lowering of the interest rates to say that the national banks should make that money. But we want relief for agriculture. But the suggestion has been put out ever since last spring, and it has spread from America to England, and is now world-wide, that prices are too high and must go lower. The only way you can reestablish confidence in case a bank has a run made upon it is for people to go to the depositors and tell them, if that is so, that the bank is all right and that they should put their deposit back. If you lower the rediscount rate it will restore confidence and will reestablish credit and will restore credit, and the wheels of industry will begin moving again.

In connection with my suggestion that there should be a change in the board, I am satisfied you gentlemen of this commission will be able to recommend a better proposition than I have suggested, but unless you have a recommendation from the different divisions—and I am a banker myself, but I am not competent to represent all of the divisions, nor is any other person able to do it—unless you get that judgment you can not meet the needs, so you should have suggestions from them all. In conclusion I beg to file with the commission the recommendations as here presented in line with the commission's suggestions:

Recommendations.

METHODS OF AGRICULTURAL FINANCE IN LEADING EUROPEAN COUNTRIES.

Finance is absolutely essential in all departments of modern business including agriculture. Particularly is this true of staple crops like cotton, where it requires 12 months for the spindles of the world operating under normal conditions to consume the production of one crop. Orderly marketing means the gradual distribution of the crop into the channels of trade to meet only the legitimate needs of the spinners month by month. To prevent dumping cotton on a speculative market, which always depresses values, and to take advantage of orderly selling, the growers must be financed so as to enable them to market safely and intelligently. The needs of farmers can not be met under the ironclad rules of commercial banking. Farmers can not secure a quick turnover of crops, it takes 12 months or longer to produce and the same period of time to consume. This important fact has been learned in leading agricultures like Germany. In Europe both short and long term finance for farmers has for many years been completely divorced from any connection whatever with commercial banking. The agricultural banking facilities are in a separate and distinct class to themselves and loans are so arranged as to meet the full requirements of the farmers as to time, and at a lower rate of interest than the commercial banks charge for handling short-term commercial paper. Experience has taught these foreign countries that the safest methods to insure maximum production on the farms is to provide easy and ample methods of finance for the farmers for such time as required for loans and at an annual rate of interest not exceeding 4 to 4½ per cent per annum. Restriction of credits for farmers is never encouraged or permitted by the Governments of European countries. Whether during the period of production or the marketing of farm products ample funds are always available and no record of farm banks failing can be found during the past 75 years of their existence in European countries. The creation of farm land banks in this country for long-time loans will be of incalculable value if they are encouraged and financed so as to fully meet the demands made upon them. Short-time loans for farmers operating somewhat upon the same principles as the farm land banks would prove of inestimable value to the American farmers.

I believe the act regulating the operation of the 12 regional reserve banks could be so amended as to meet the needs of agriculture for 6, 12, and 18 months' loans without the creation of a separate and distinct banking system for such short-time loans. The rural districts of the country are already honeycombed with small banks engaged in what is termed commercial banking. These rural banks could feed farmers' paper to their respective regional reserve banks, just as the short-time farm paper is fed from the European Raiffeisen banks to a central bank in designated territory. The regional reserve banks could have a separate and distinct department for handling and rediscounting farm paper running for a longer period of time than ordinary commercial loans. Six, 12, and 18 months' agricultural loans (the 18 months' paper applicable only to live stock) could be rediscounted at a lower rate than commercial loans, and the member banks should not be permitted to charge the borrower exceeding 1 per cent more than the special rediscount rate fixed by the reserve bank. Such loans should not be a charge upon the basic line fixed by the reserve bank or member banks handling farm loans of this character. I will not go into deeper detail on this subject, as I am presenting the subject to your attention for such consideration and recommendation as you may desire to give to it. I think everyone who has given thought or study to our present system of agricultural finance in this country on short, term loans must admit that the system is primitive and totally inadequate or satisfactory to the real needs of the farmers. This is a country of purely commercial banking, and the needs of agricultural finance is always regarded as an indifferent or secondary consideration.

Agriculture can not be forced to adopt the methods of commercial banking without entailing great inconvenience, suffering, and loss upon the farmers. When farmers fail to prosper the Nation suffers. Agricultural finance must be worked out to meet the real needs of agriculture and not based upon the ideas and views of what commercial bankers think is best for the farmers. I beg that you give earnest consideration to this matter and to the full extent of your valued cooperation place the subject fully before Congress for providing the necessary relief. Your attention is specially called to Senate Document 214, Agricultural Credits in Europe, issued 1913.

THE REVIVAL OF THE WAR FINANCE CORPORATION AND ITS VALUED AID IN AMERICAN EXPORTS.

I wish to take advantage of this opportunity to express the deep appreciation of the cotton-growing interests of the Nation to the Congress for its wisdom in reviving the War Finance Corporation and placing its operations in the hands of men who are using its valued financial machinery to render real service in the rehabilitation of our exports. When we consider that two-thirds of the American cotton crop must be exported each year, it must be realized that anything which checks or stagnates the exports of the staple not only strikes a severe blow to the growers of the crop but likewise affects the financial income of the Nation from foreign countries. The Members of Congress, therefore, who so overwhelmingly by their votes revived the activities of the corporation, displayed a statesmanship and broad vision of a national and international necessity which as time goes on will be of incalculable value to agriculture and the Nation at large. The necessity for a Government credit corporation to aid in the export of products on long-term sales has been fully recognized by England and other leading European countries engaged in foreign commerce. The fact that the War Finance Corporation is extending financial aid to our exports will have a most stimulating effect upon commerce and tend to reestablish confidence in business. It will give hope and activity to foreign industry, which so badly needs American raw products, and especially cotton. The wheels of industry need to turn in all parts of the world, and the greatest stimulus for reviving world activities now is to supply those countries with raw products which are lying here in America on a stagnated market. It is only through production that we can pay our enormous war debt and successfully meet the changed conditions that have come as result of five years of war, burdening us not only with stupendous sums of war debts but creating a complete sociological and economic change which would not have developed in 500 years of natural evolution. Complete paralysis engulfs a great part of the world; initiative has been destroyed and confidence shaken to the extent that many industries have almost ceased to function.

Much of our present commercial distress is attributable to a total disregard of the changed conditions and a false and blind adherence to a belief in prewar conditions. The abandonment of the belief in a return to prewar standards and a general recognition and acceptance of a revised standard of values reflecting existing conditions is absolutely necessary to restore confidence and to facilitate production and the movement of international trade.

IT IS AS IMPORTANT TO LOWER THE FREIGHT RATES OF THE COUNTRY AS IT IS TO LOWER THE REDISCOUNT INTEREST RATES.

With inflated railway rates fixed and subsidized by the Government and deflated prices for farm products, there is no inducement to farmers to increase production in many of the essential lines of agriculture. Thousands of acres of growing food crops were allowed to rot in the fields this year because of prohibitive freight rates on putting such crops into market. In many of the staple lines of agriculture the freight rate absorbs the market price of the crop shipped. Transportation facilities are imperative to the commerce of the Nation, but excessively high freight rates tend to put an embargo on the marketing of raw products which vitally affects the business of the farmers. It is utterly impossible to deflate the values of farm products, such as had been done in the past 12 months, and maintain inflated freight rates without seriously crushing the agricultural industry of the Nation.

I would earnestly urge your committee to give thoughtful consideration and careful investigation into this important matter. The railroad rates are fixed and controlled by governmental machinery with unlimited power, while the products of the farm are practically without protection and subservient to the manipulations of trade. To induce increased production and distribution of necessary farm products there must of necessity be adequate and reasonable transportation facilities. The railway rates are as high or higher than they were when all products were selling at inflated values. If the Federal Reserve Board, through drastic restrictions of credits, contraction of the currency, and high rediscount interest rates, can force down the prices of products and commodities throughout the Nation, clearly the Government has the power to lower freight and express rates correspondingly.

NECESSITY FOR ENACTMENT FEDERAL LEGISLATION TO SECURE ECONOMIC REFORM IN BALING AMERICAN COTTON.

Careful investigations made by experts of different departments of the Federal Government place the burden of enormous economic losses on the cotton crop each year amounting to nearly $200,000,000 on the present primitive and expensive methods of baling and recompression. The present method of baling cotton imposes

unnecessary high fixed charges on excess storage, insurance, freight rates, recompression, sampling, waste, and further losses of approximately $75,000,000 per annum caused by country damage. The practical loss of the value of one entire cotton crop to the growers every 10 years results from the present system of baling.

All of these enormous losses could be saved to the farmers, the spinners, and the ultimate consumers of cotton goods by the adoption of high density gin compression by the cotton ginneries of the country. Congressional aid, however, is imperatively necessary to enable the ginners and the farmers to utilize the economies of high density gin compression and break the strangle hold of the organized and powerful recompress interests on the cotton-handling industry.

Senator Joseph E. Ransdell, of Louisiana, has introduced into the Senate a bill which if enacted into law will give the necessary relief to encourage high density gin compression. Following is a copy of the bill referred to:

"A bill to regulate interstate shipments of cotton, and for other purposes.

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Interstate Commerce Commission shall establish and enforce preferential rates on shipments of cotton based upon the cubic foot contents of the bale. In reaching its decision the commission shall take into consideration the density of the bale, the amount of space it occupies, its uniformity in size, the character of its covering as a safeguard against damage or fire, and any other points that seem fairly to entitle it to favorable discrimination."

The railroads refuse to grant the same concessions in rates to high density gin compressed cotton as they grant to recompressed cotton, notwithstanding the fact that high density gin compressed bales will load cars to full carrying capacity at initial points of shipment. It requires four box cars to carry as many of the present gin bales as could be loaded in one car of high density gin compressed bales, and nearly twice as many cars to carry the same tonnage of recompressed bales as is given in high density gin compressed bales.

This is the only cotton-producing country in the world which follows the same wasteful and disgraceful system of putting into the channels of commerce the same type bale of cotton used 50 years ago. The American bale of cotton to-day is regarded by the spinners of the world as the most disgraceful, expensive, and unsatisfactory package of any kind which enters commerce. American and foreign spinners and the growers of cotton in this country have pleaded for high density gin compression of American cotton for 25 years without results. Machinery has been invented of several round and square bale types which is ready and available whenever the railroads are forced by law to recognize the high density gin compressed bales as an economic package in transportation and give to that system of baling the same rights accorded to recompressed bales.

I would therefore urge your favorable consideration of the Ransdell bill above referred to in the interest of vitally needed economic reforms in the baling and handling of the cotton crops for the future.

CREATION OF A BOARD OF AWARDS AND THE ESTABLISHMENT OF A HALL OF SERVICE OF THE AGRICULTURAL DEPARTMENT OF THE UNITED STATES TO PERPETUATE THE NAMES OF THOSE RENDERING SIGNAL SERVICE TO AGRICULTURE.

It has been well said that the well being of a people is like a tree; agriculture is its root; manufacture and commerce are its branches and its life; if the root is in,ured the leaves will fall, the limbs will break away and the tree will die; therefore, the man who renders outstanding service in improving agriculture is a benefactor to mankind and his service should be appreciated and commemorated. For this purpose and primarily for the purpose of attracting the endeavors of man in assisting and promoting scientifically agriculture, improving agricultural conditions, emphasizing the tremendous importance of agriculture, I urge that this commission prepare a bill and recommend its passage by our National Government for creating a board of awards to be composed of the Secretary of Agriculture, the chairman of Committee of Agriculture of the Senate, the chairman of the committee of Agriculture of the House of Representatives, and two members at large, to be appointed by the President, it being the duty of this board to recommend for the purpose of receiving the title of "Patrons of Agriculture," men who either by financial contributions, either to the National Agricultural Department or any State agricultural department or existing agricultural college or for the purpose of establishing additional agricultural or horticultural colleges, or to the agricultural associations or societies, the financial contributions to be used for the purpose of education and the development and promotion of agriculture in all of its branches; also those who have rendered signal service by the development

of means and methods of increasing production; also to men who by a discovery of scientific methods have effected great benefits in the promotion of agriculture, including the eradication of insect damage; also for men who have discovered and perfected patents, inventions, processes and improvements that will contribute to the betterment and enlargement of agriculture. The men so selected must be selected because their accomplishments are not only worthy of the present but because they are permanent.

COMMISSION TO EXTEND USES OF AMERICAN COTTON.

Just before President McKinley was assassinated he declared in a public speech that the time had now come when we must trade with other nations through agreement and that reciprocity should be our national policy. President McKinley had a broad vision in this matter. He had a bill introduced for the appointment of a cotton commission of five men to be appointed by the President to visit foreign countries, investigate conditions, and to establish trade relations to the end of establishing in all countries possible a market for raw material and for our manufactured goods. I urge in the strongest terms that the Agricultural Investigating Commission prepare a bill to be enacted into law for the purpose of having such a commission appointed and use every effort possible to have this bill passed. This commission should be appointed for a period of five to six years and during that time should visit every country, establishing trade relations with these countries and agreeing upon the terms upon which not only raw cotton and cotton goods but other products subject to exportation should be admitted into the ports of the world.

PERSONNEL OF THE COMMISSION.

The commission should be composed of two representatives of the section of America producing wheat and corn and raising cattle and two representatives from the section of America raising cattle and one representative at large. This would result in forming a world-wide market for our products subject to export, and we would thus find that the demand for agricultural products would be enormously increased and that 15,000,000 bales of American cotton would scarcely supply one-half of the world's needs.

SCIENTIFIC RESEARCH COMMISSION FOR COMBATING DESTRUCTIVE COTTON BOLL WEEVIL.

Cotton is the leading product in American commerce and international trade. It is the Nation's greatest single monetary asset. The boll weevil now covers 77 per cent of the cotton-producing area of America. The destruction caused by the boll weevil during the present year, as shown by the Government records, is the most serious ever known, and unless some scientific method can be secured for combating the inroads of the boll weevil, the destruction of the American cotton crop will become even more serious. Methods for combating and controlling the boll weevil damage is not only a national and international, but a world problem. Unless some scientific method can be speedily secured, it will have a most disastrous effect upon the commerce of the Nation and upon every line of the cotton industry of the entire world.

I therefore urge that the Joint Congressional Committee on Agricultural Inquiry prepare a bill, appropriating ample funds to be used to secure the concentrated effort of the scientific world to secure methods for either destroying the boll weevil or minimizing the damage of same.

The monopoly of the cotton producing industry is controlled by America, we producing 84 per cent of the cotton of three-fourths inch staple and over of the world, and this monopoly is in jeopardy as the result of the fearful ravages of the boll weevil, no method having been discovered for combating same. The damage is not only fearfully increasing the cost of production, but has reached such proportions that now threatens the very industry.

The cotton area north of certain latitudes, for a number of years after the boll weevil entered the American cotton belt, was considered immune to the boll weevil. The seriousness of the situation is now greatly added to, as it is found that the boll weevil has become acclimated to such an extent that no section of the cotton belt, regardless of location, will be immune to his inroads; that the boll weevil can exist and destroy the cotton crop in any section where cotton can be grown. So that it is only a matter of a short time before he will cover the entire cotton belt. In addition to that, his damage is fearfully increasing on account of the inability to discover any method to combat with same over the section that he already covers.

This is a national, an international, and a world problem, and I feel that it should receive the most serious consideration of your committee and that you should give the matter the serious consideration it deserves and draft a bill, making a larger appropriation for the above purposes, such appropriation being in the interest, not only of the agriculture of the South, but of the commerce of the entire Nation, and of the cotton industry of the world.

The CHAIRMAN. The commission is very much obliged to you, Mr. Wannamaker. We will adjourn now till 10 o'clock to-morrow morning.

(Whereupon, at 5 o'clock and 45 minutes p. m., the commission adjourned until Wednesday morning, August 24, 1921, at 10 o'clock.)

AGRICULTURAL INQUIRY.

WEDNESDAY, AUGUST 24, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met at 11.15 a. m., pursuant to adjournment Monday, August 22, 1921, in room 70, the Capitol, Hon. Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will come to order. We will hear Gov. Miller, of the Federal Reserve Bank of Kansas City.

I understand, Gov. Miller, that you would like to present your subject in your own way, of course, subject to any interruptions as members of the commission may desire to clear up some points, and we will be very glad to have you go ahead now with your statement along that line.

STATEMENT OF MR. J. Z. MILLER, JR., GOVERNOR FEDERAL RESERVE BANK, KANSAS CITY, MO.

Mr. MILLER. Mr. Chairman and gentlemen of the commission, I believe that the Kansas City district has been charged with charging rates of interest which curtailed agriculture and which were ruinous to industries that are common to that territory. We have prepared some charts and figures on the causes leading up to the adoption of what is known as the progressive rate of interest, showing how it was applied and the practical results of that application.

First, we have a map here on the wall entitled "Absorption of credit, 1920." In January, 1920, 14 banks in Kansas City had obtained from the Federal Reserve Bank of Kansas City 34 per cent of its lending power. Nine banks in Omaha had absorbed 23.5 per cent of the lending power of the Federal Reserve Bank of Kansas City. Therefore these two cities alone had absorbed 57 per cent of the lending power of our bank.

As you will see by the chart and the line I point to, liquidation set in and continued up to February 15. About that time the spirit of expansion took place in the Kansas City district as well as in most other districts in this country, and the 14 banks in Kansas City rapidly increased their borrowings at the Federal reserve bank almost to an angle of 45°, until on May 1, 1920, those banks alone had absorbed 50 per cent of the total lending power of our Federal reserve bank. And the Omaha banks had absorbed 23 per cent. The borrowings of these 23 banks represented 73 per cent of our lending power, leaving only 27 per cent for the 1,063 other member banks.

Congress, in April, 1920, passed an amendment to the Federal reserve act permitting Federal reserve banks, with the approval of the Federal Reserve Board, to charge graduated rates of interest. We adopted the progressive rate on April 19. You can see very readily from this chart how it distributed credit. Two weeks after the progressive rate was adopted the Kansas City banks began to reduce their loans with the Federal reserve bank, and that reduction proceeded almost at the same angle as their borrowings had increased during the two previous months, and by the middle of August they had reduced their loans to 28 per cent from the high point of 50 per cent. The Omaha banks likewise had reduced their loans.

Representative TEN EYCK. Mr. Chairman, I believe it might be well, in connection with the explanation of the percentage the Kansas City banks borrowed, to know the percentage of the basic lines of the Kansas City banks to the reserve bank in that district.

The CHAIRMAN. Gov. Miller might answer that question.

Mr. MILLER. About 40 per cent of the borrowings.

Representative TEN EYCK. The basic line of the Kansas City banks is about 40 per cent of the reserve bank; what was the high point borrowed from the reserve bank?

Mr. MILLER. They were about an average of two and one-half times over their basic loans. I mean they were averaging about two and one-half times their basic lines when they were borrowing at the high point.

Representative TEN EYCK. They had borrowed two and a half times more than their basic line?

Mr. MILLER. It was an average of that. Some had borrowed five times more, but the average was about two and a half times their basic line.

The CHAIRMAN. You may continue your statement.

Mr. MILLER. Almost from the beginning of the Federal reserve system the city banks in our district had rather encouraged the country banks to avoid the Federal reserve bank and to concentrate their business and loans with them, the city banks.

But after the progressive rate went into effect and the larger banks were confronted by the higher rate of interest, they at once communicated that information to their country correspondents and suggested to them that it would be the patriotic thing for them, at that time, to avail themselves of their share of the lending power of the Federal reserve bank. And as a result this red line shows the curve of new borrowers. From the very day we put in effect the progressive rate these new borrowers began to come forward, and you can see how very rapidly they increased.

Very likely a great part of the funds which were borrowed by the new borrowers was money turned back from the larger banks. This served well the purpose of the Federal reserve bank because we had a liability to those country banks, and in that way liquidated that liability, as it were, by them coming in and getting their share, which resulted in a greater distribution of credit.

Representative TEN EYCK. Just before you leave that point: Why did the progressive rate of interest create a desire on the part of the other banks to borrow? Or why did it induce them to come forward and borrow whereas they had not theretofore been borrowing?

Mr. MILLER. These banks [pointing on diagram]?

Representative TEN EYCK. Yes.

Mr. MILLER. These banks were borrowing all the time from the city banks, and doubtless would have continued borrowing, and this line [pointing on diagram] would have gone way up here probably. But when the city banks had to pay 8½ per cent and were only getting 8 per cent themsleves they suggested to the smaller banks that they had better come in and borrow from the Federal reserve bank. I do not think it induced them to borrow any more money than they would have borrowed if they had continued to borrow from these larger banks, but certain it was that the city banks would very much rather under those conditions send the smaller banks to the Federal reserve bank to get their proportion of the loans at 6 per cent.

You see we did not increase our normal rate of interest. We went on the principle that every member bank in our district was entitled to its full proportion of the lending power at the very lowest reasonable rate of interest. Therefore when several Federal reserve banks increased their rate to 7 per cent we maintained a 6 per cent normal rate; and let me say right here that we have never changed that rate up to this time.

Representative TEN EYCK. Is that the general practice, for the smaller member banks to borrow of the larger city banks rather than to borrow direct from the Federal reserve bank?

Mr. MILLER. It is not now the general practice, but their inclination has been to borrow from the city banks, because in the very first stages of the system the small banks were told by some of the city banks: Now, you come right along and do business with us, send all your discounts to us, and we will have transactions with the Federal reserve bank. These fellows up here are rather technical, in a way, and we understand how to comply with their requirements. As a result they handled practically all of the loans of the smaller banks for the first two or three years.

Representative TEN EYCK. Did they make a profit on that business?

Mr. MILLER. Yes; because up to the time when we put in the progressive rates of interest we had never made a loan on which there was not a profit of from 2 per cent to 4 per cent to the borrowing member. Our contract rate in Missouri is 8 per cent, in Kansas 10 per cent, in New Mexico, Colorado and Wyoming 12 per cent, and our average rate of interest for the entire year 1920 was just a little above 6 per cent.

Representative TEN EYCK. Do you think the smaller member banks will go back now and pay tribute to the larger city banks, even though the progressive rate is discarded?

Mr. MILLER. No; I do not. I think many will come to the Federal reserve bank hereafter.

Mr. Chairman, may I refer to this map over here on the far wall at this time, because this map really tells the story.

The CHAIRMAN. Very well; we will move over to that map.

Mr. MILLER. Here is a comparison of the progressive rates as applied in the tenth district with the 7 per cent flat rate that was adopted by at least four, and perhaps other, Federal reserve banks. We adopted the progressive rate April 19, 1920.

For the 12 days of April we had loaned an average of $63,327,210, for which we received $130,307.64 interest, or at the rate of 6¼ per cent. During the same time we had an average of $18,226,494 loaned at normal rate of 6 per cent, on which we collected $35,953 interest, making a total average of loans for the 12 days of $81,553,704, on which we collected $166,261 interest, the average rate being 6.20 per cent.

Had our district adopted the 7 per cent flat rate we would have levied an additional tax or discount on our district of $21,424. The same amount at 7 per cent would have brought $187,685 as against $166,261.

For May loans averaged $60,693,969 at progressive rates, and $17,377,276 at the normal rate, 6 per cent. All normal borrowings were 6 per cent.

I want to say that embraced in this column are included all the banks that were affected by the progressive rate. Of course the amounts they were borrowing at normal rates are also included. This normal rate list represents the borrowings of banks within their basic line, and therefore not affected by the progressive rates.

So in May our loans averaged $78,071,245 and the average rate of interest was 6.44 per cent, representing a saving of $36,652 to our members.

In June our loans averaged $76,026,337 at 6.44 per cent.

For the entire period from April 19 to December 31, 1920, the average amount loaned to banks affected by the progressive rate was $70,554,174.43. The average amount loaned to banks within their basic line was $17,450,527.73, or a total average of $88,004,702.15, on which we collected $4,096,925.31 interest, the average rate for the entire time being 6.61 per cent.

The CHAIRMAN. Does that $4,000,000 represent the amount you actually collected or does it represent a calculation of a rate upon the average?

Mr. MILLER. No, sir; it means the absolute amount collected to the penny, as taken from the books. It is what we actually collected in money.

If we had adopted the 7 per cent flat rate on the same amount of money we would have collected $4,337,546.94 from our district, so what we charged represents a saving of $240,621.63.

At the same time, when the four Federal reserve banks adopted the 7 per cent flat rate they also adopted a 6 per cent rate on Government securities, but the Federal reserve bank of Kansas City still held on to its 5½ per cent rate on Government securities until the 28th day of September, 1920.

We loaned during the month of April $32,322,690 on Liberty bonds, on which the difference of one-half of 1 per cent represented $5,313. We loaned on such securities in May about $35,201,077; in June, about $37,403,303; in July, about $38,324,766; in August, $40,184,001; and in September, $44,099,762, the savings for each of the months being, respectively, in round figures: For the 12 days of April, $5,000; for May, about $15,000; for June, about $16,000; for July, about $17,000; for August, about $15,000; for September, about $16,000; representing a total saving of $85,283.15. The saving on commercial, agricultural, and industrial paper and on bond-secured papers aggregated $325,904.78.

If our members had adopted the Minneapolis rate, the Federal Reserve Bank of Kansas City would have turned into the Treasury just that much more money, which would have been equal to a levy of $325,000 on the tenth district for the purpose of paying a franchise tax.

But that is not all. We had a liability to extend further credit. When we were lending $63,000,000 to banks affected by the progressive rate of interest and $18,000,000 to banks borrowing at normal rates, we had 649 member banks that were not borrowing at all, and they were entitled to a basic line of credit of $48,898,000. There were 171 borrowers affected by the progressive rate, and 236 borrowers that were borrowing within their basic line. To those 236 borrowers we had a direct liability to extend credit of $25,000,000. So, during the month of April, we had 236 borrowers under their basic line and 649 nonborrowing members. Therefore, we had quite a liability there, in fact, $73,000,000 to furnish to those who had a right to call on us.

When the new borrowers came in, represented by the red line shown on the other diagram, you observe that this line began to decline, and the number of nonborrowers declined from 649 to 364. You will also observe that we were lending to practically 300 of those nonborrowers as of April.

And, gentlemen of the commission, during all this period the Kansas City Bank was borrowing sums ranging from $10,000,000 and $12,000,000 to $48,500,000.

The CHAIRMAN. That is, from other reserve districts?

Mr. MILLER. Yes, sir. Therefore we had extended credit equal to our own lending power plus the $48,500,000 we had borrowed, and our reserve at that time was just above 40 per cent.

We had a liability to extend a further credit of $60,000,000. The charge has often been made that we should have gone along without paying heed to the $60,000,000, for which members borrowing below their basic lines had the right to call. But we felt that section 4 of the Federal reserve act, charging directors and officers of Federal reserve banks with paying some regard, in fact, it says, due regard, to the rights and claims of other members, required that we should give consideration to it. So we had an average liability there of $60,000,000 to banks that had not borrowed their full basic line, and to banks which had not borrowed at all.

The CHAIRMAN. I think that is capable of misconception because it would seem that you were borrowing from other banks; and if you were borrowing from other banks that you were lending all the money you had and some besides.

Mr. MILLER. Yes.

The CHAIRMAN. That would not seem to indicate that you had an average unused credit of $60,000,000 as indicated on that chart.

Mr. MILLER. It was an average liability to extend further credit. We did not have the funds to make those loans but we had a liability to banks that had not called upon us.

Here is a chart showing the liability for each month which we owed the member banks. These member banks borrowing below their basic line were entitled to certain additional borrowings, and this chart shows the amounts that we owed them, assuming that they would borrow just to their basic line and no further.

The CHAIRMAN. I understand what you mean, but the use of the term "average unused credit," might to a casual observer indicate that you had $60,000,000 in the bank which you were not lending to anybody.

Mr. MILLER. Probably that is a poorly chosen term. Perhaps we should say, liability to extend further credit. Certain it is that the Federal reserve bank should hold itself in readiness, either out of its own funds or by using its credit, to supply at least the basic line to every solvent.

The CHAIRMAN. That is to say if on the average you had loaned to banks which were not borrowing all the money that they were entitled to receive, in addition to what you were then actually lending to other banks, you would have had an excess liability of $60,000,000?

Mr. MILLER. No; I do not think that is it all.

The CHAIRMAN. Let us find out what it is.

Mr. MILLER. We had 171 banks that were borrowing excessively, we will say, Mr. Chairman.

The CHAIRMAN. Yes.

Mr. MILLER. And then we had 236 banks that were borrowing under the basic line.

The CHAIRMAN. All right.

Mr. MILLER. The 236 banks that were borrowing under their basic line had a call on us for $25,000,000 more in April, 1920. At the same time there were 649 member banks that had a call on us for $49,000,000, but they were not calling at that particular moment.

This subject has nothing to do with it, except to show that if these banks had called for the portion which they had a right to call on us for we would have had to borrow from other districts $60,000,000 to cover our liability to extend further credit. Is that plain, Mr. Chairman?

The CHAIRMAN. That is the way I understand it.

Mr. MILLER. I want to call attention particularly to the fact that the average rate of interest on commercial, industrial, and agricultural paper, which was put on the same basis, for the entire year from April 19 to December 31 was 6.61 per cent.

Now, let me see——

Representative TEN EYCK (interposing). Just before you leave this table let me ask you to whom did the progressive rate of interest apply in this instance?

Mr. MILLER. May I submit that just a little later?

Representative TEN EYCK. Very well.

Mr. MILLER. Here is a table showing the average rate of discount for 1920 and 1921. The average rate of discount on commercial, industrial, and agricultural paper for the month of January was 5.35 per cent.

The CHAIRMAN. Is that January, 1920?

Mr. MILLER. Yes. In February the average rate increased to 5.5 per cent, during the month of March to 5.80 per cent, and during the month of April to just a fraction over 6 per cent.

The progressive rate of interest went into effect April 19, and for the months of May and June the average rate of interest was 6.45 per cent; for July, 6.55 per cent; for August, 6.50 per cent; a little

more for September; 6.70 per cent for October; 6.82 per cent for November, the highest month in the year 1920; and 6.78 per cent for December. For January, 1921, it averaged 6.40 per cent; for February, 6.30 per cent; and just a little above 6 per cent for the balance of this year up to June 30.

This green line that falls from April 19, 1920, to June 28, 1921, represents the period during which New York, Chicago, Minneapolis, and, most of the time, Boston were charging 7 per cent. This line represents 7 per cent. So you will see that in the tenth district our members paid a lower rate of interest. They never did pay an average of 7 per cent, I mean, during any one month, and as shown here the average rate from April 19 to December 31, 1920, is 6.61 per cent.

The other map shows the average for each month. The red line indicates Governments—I mean by Governments, loans made on Government securities. The purple line indicates the average rate of interest of all classes of loans—Governments, commercial, agricultural, and industrial—for 1920, which is about 6.05 per cent; that is. for the entire year. For the first six months of 1921 our loans averaged about 6.02 per cent.

The CHAIRMAN. Let me ask you there; did the progressive rate of interest apply to borrowing on Government bonds?

Mr. MILLER. No, sir; it never has.

The CHAIRMAN. There were some other exemptions, if my recollection is correct, in the application of the progressive rate of interest. Would you mind stating what they were, unless you are coming to it a little later on?

Mr. MILLER. Mr. Chairman and gentlemen of the commission, a few weeks ago——

The CHAIRMAN (interposing). If you are going into that matter a little later, never mind about doing it now.

Mr. MILLER. I will take it up now. About the time the matter was being discussed that the emergency for the progressive rate had about passed the clearing houses of the reserve cities of our district held meetings. I must first tell you that here is a book containing a compilation of every cent that we have ever charged any bank under the progressive rate. It is tabulated by districts, by cities, by States, by months, and even gets down to the individual bank. I want to tell you that the reserve city banks, or the banks located in Federal reserve cities of our district, paid 81.76 per cent of all the progressive interest charged. That would leave 18.24 per cent for the other 1,010 banks.

The CHAIRMAN. How do the loans and discounts of banks outside the cities compare with banks inside the cities? Let us get the proportion of loans and discounts and see how they relate to the other figure.

Mr. MILLER. I will come to that just in a moment if you will excuse me now.

The CHAIRMAN. Very well.

Mr. MILLER. When the reserve city members understood that there was under contemplation a suspension at least of the progressive rate of interest they held meetings, and here are photostatic copies of resolutions passed by the member banks of the reserve cities; of

the very banks that paid the 81.24 per cent of all the progressive rate collected. These resolutions are from Oklahoma City, Lincoln, Omaha, Wichita, Denver, Tulsa, Muskogee, and Kansas City. Every single member bank doing business in those cities signed a resolution addressed to the Federal reserve bank at Kansas City protesting against the abolition of the progressive discount rate.

The CHAIRMAN. Are those clearing houses controlled by the member banks?

Mr. MILLER. Well, I have referred to them as clearing houses, whereas they were member banks' meetings, and I should not have used the term "clearing houses." We call them clearing house cities, as a rule. These resolutions came from member banks, and they contain the signatures of 100 per cent of the member banks in the cities, with the exception of two banks in Kansas City. They are all about alike, but here is a resolution passed by the member banks in the city of Denver [reading]:

Resolved by the undersigned member banks of Denver and vicinity, That we approve the progressive rate of rediscount, believing that it is not only sound in principle but also helpful and constructive in its operation, and that it has been an important factor in accomplishing a fair and equitable apportionment of available credit in this district. We strongly urge its retention by the Federal reserve bank of district No. 10.

Dated at Denver, Colo., this 7th day of May, 1921.

First National Bank of Denver, Colo., H. C. Alexander, president: International Trust Co., John Evans, president; Colorado National Bank of Denver, Geo. B. Berger, president; Denver National Bank, J. C. Mitchell, president; United States National Bank of Denver, Albert A. Reed, vice president; Geoke National Bank of Denver, D. H. Steel, president; Stock Yards National Bank of Denver, M. W. Butcher, president; American Bank & Trust Co., Godfrey ———, president; Drovers National Bank, Gordon Harris, president; Hamilton National Bank, Denver, Colo., E. J. Weckback, cashier.

In these reserve cities there was not a single dissenting member of the system, not a member who did not approve the progressive discount rate principle.

Representative TEN EYCK. Is it convenient to you now to say to whom this progressive rate applied? State just in a few words in what way you applied the progressive rate.

Mr. MILLER. There is an application of it right here on this map.

Representative TEN EYCK. First, could you give us some idea how you obtained the average rate that you have shown on the chart there; how did you go about getting up that average rate?

Mr. MILLER. The only way in which the average rate was obtainable was by the work of about 25 men just as long as it was necessary to be at work on it, and they took the actual figures on every note that was handled by the Federal reserve bank for the length of time; and that map you see on the wall was constructed in just that way in our auditor's department.

Representative TEN EYCK. In other words, what did you do?

Mr. MILLER. We took the actual experience.

Representative TEN EYCK. The actual interest obtained on all loans and divided the total up by the total number?

Mr. MILLER. Yes, sir; and for the time. It was a long and tedious task.

Representative TEN EYCK. That included, of course, loans on Government bonds?

Mr. MILLER. No; they were separate.

Representative TEN EYCK. They are not included in the other?

Mr. MILLER. Oh, no. They are both represented on this map here, and they are both represented on the other map over there. And we have put an average of both loans together to indicate just what the country as a country paid on Government and on commercial, agricultural, and industrial loans.

Representative TEN EYCK. One more question: What classes of paper was the progressive rate applied to?

Mr. MILLER. All classes of paper except Government.

Representative TEN EYCK. The same rate was applied to all?

Mr. MILLER. Yes, sir.

Representative TEN EYCK. No discrimination whatever was practiced?

Mr. MILLER. No discrimination of any sort.

The CHAIRMAN. You may proceed with your statement.

Mr. MILLER. This is the way the progressive rate was applied: Here is an imaginary bank, the First National Bank of Blankville, Kans. Its basic line for July, 1921, is, say, $100,000. Every single day for every single bank that was affected by the progressive rate we adjusted their borrowings so that they would always receive the full amount of their basic line at the lowest price, at the 6 per cent normal rate; then an equal amount at the step ups, at 7 per cent an equal amount, and at 8 per cent, and then everything above 8 per cent.

Here is an imaginary bank that on July 1 owed us $95,000. Of course, its basic line being $100,000, that all fell within the 6 per cent column. The next day, however, it owed us $105,000. Then it was entitled to $100,000 at 6 per cent and paid 7 per cent on the additional $5,000. We will say that that was on Saturday; then came Sunday, and then the 4th of July. They were all adjusted on that same basis. On the 5th, however, they increased their borrowings to $150,000. Of that amount $100,000 went in at the 6 per cent, the normal rate, and $50,000 at 7 per cent.

We will then skip down to the 7th, when they had $275,000, $100,000 of which was at the normal rate of 6 per cent, $100,000 at 7 per cent, and the balance of $75,000 at 8 per cent.

On the 29th they had increased their loans to $450,000——

The CHAIRMAN (interposing). Was your step up on the progressive rate of 1 per cent on $100,000 in excess of the basic line?

Mr. MILLER. Yes; that was the effect of it. We had a step up for the first nine months of one-half of 1 per cent on an average of 25 per cent.

But, Mr. Chairman, these three columns represent the full amount at the normal rate, the full amount at 7 per cent, and the full amount at 8 per cent, and by a mere coincidence they averaged exactly what the three columns would have been at each step up. The difference

is that the 6 per cent and 7 per cent and 8 per cent would average 7 per cent. And the 6 per cent, 6½ per cent, 7 per cent, 7½ per cent, 8 per cent, 8½ per cent, 9 per cent, 9½ per cent, and 10 per cent would average 7.05 per cent, so it is practically the same. But this indicates just how it worked.

As I started to say, on the 29th this imaginary bank had gotten its loan up to $450,000. Of that amount $100,000 was at 6 per cent, $100,000 at 7 per cent, and $250,000 at 8 per cent.

At the time when this bank again became a normal borrower we refunded it, as we refunded every bank, the interest which would not bear out this adjustment; and every bank in our district has been refunded interest over 12 per cent. There is no bank in our district that paid over that amount; in fact, only two banks that paid an average of approximately 8 per cent, and only one or two that paid slightly over 7 per cent; practically all under 7 per cent.

The CHAIRMAN. How many banks paid over 12 per cent?

Mr. MILLER. There were practically none, I think about three city banks that paid over 12 per cent. With the exception of the city banks the total refunded to the smaller banks was less than $200, on which a rate of over 12 per cent was paid.

It was possible for a bank to have a basic line of $100,000—the basic line, as you know, being calculated on the amount that the member contributes to lending power—and the next month draw out all their money and their reserve as well. That would, of course, result in a very high rate of interest, but it would naturally be only about three or four hundred dollars, or at the outside $500. But, as I told you, all the interest that we collected over 12 per cent, with the exception of three larger banks, was less than $300.

Representative TEN EYCK. Was every member bank permitted to borrow up to the basic line at 6 per cent?

Mr. MILLER. Yes, sir; every member was permitted to borrow its basic line at 6 per cent.

Representative TEN EYCK. And as soon as they went above that you made a certain ratio of increase?

Mr. MILLER. Yes, sir. We went on this theory, that such member was then using credit the basis for which was being furnished by its neighbor.

The CHAIRMAN. You may resume your statement.

Mr. MILLER. Mr. Chairman, I want to say to you that we have prepared here, from the month of April, 1920, to July 31, 1920, a statement showing the number of banks borrowing above their basic line, the number of banks borrowing below their basic line, and the number of banks not borrowing at all. I want to get this in the record to show that at all times there was throughout our district, sandwiched in all the towns, from $30,000,000 to $60,000,000 of credit that we were under obligations to furnish, but which was not called for by the members entitled to receive it.

(The statement referred to is here printed in full in the record, as follows:)

Federal reserve bank of Kansas City—Loans to member banks, classified by States—Basis, 30th of each month—April, 1920, to July, 1921.

LOANS TO COLORADO MEMBER BANKS.

Date.	Excessive borrowers. Number of banks.	Excessive borrowers. Basic lines.	Excessive borrowers. Total loans.	Nonexcessive borrowers. Number of banks.	Nonexcessive borrowers. Basic lines.	Nonexcessive borrowers. Total loans.	Nonborrowers. Number of banks.	Nonborrowers. Basic lines.
1920.								
Apr.	26	$2,190,658.00	$2,674,642.82	22	$11,438,612.00	$4,214,875.49	93	$12,447,808.00
May	21	1,033,948.00	1,600,429.61	45	12,225,546.00	7,400,243.84	77	12,367,584.00
June	33	2,289,020.00	4,662,143.97	46	11,962,433.00	7,339,207.78	64	11,608,071.00
July	39	2,566,275.00	5,210,933.49	40	13,447,701.00	9,616,485.91	66	9,421,911.00
Aug.	42	2,637,481.00	5,353,396.10	44	14,361,196.00	7,942,917.31	60	8,011,975.00
Sept.	37	1,922,215.00	4,173,594.21	50	16,136,533.00	11,523,493.91	59	6,431,438.00
Oct.	42	2,442,097.00	5,013,744.55	46	15,881,015.00	8,988,162.52	58	7,044,596.00
Nov.	36	2,231,382.00	3,874,287.49	43	15,385,241.00	6,160,664.65	67	7,601,302.00
Dec.	50	3,027,160.00	5,951,738.27	34	10,060,889.00	6,102,696.48	62	9,115,733.00
1921.								
Jan.	53	3,140,368.00	6,022,507.35	37	10,310,308.00	5,819,048.29	56	10,772,412.00
Feb.	55	2,946,937.00	5,836,659.60	32	11,676,470.00	5,372,708.14	58	8,951,017.00
Mar.	45	2,575,805.00	4,457,061.04	42	9,351,896.00	4,314,896.00	58	11,409,632.00
Apr.	46	2,295,421.00	3,765,966.39	46	9,681,295.00	4,327,315.20	53	10,566,360.00
May	50	2,219,400.00	3,553,932.30	38	6,641,507.00	3,461,015.49	57	13,162,031.00
June	58	2,467,799.00	3,977,911.03	39	12,859,116.00	7,059,651.79	49	6,124,487.00
July	62	2,910,222.00	4,687,691.88	35	9,359,400.00	4,364,055.59	49	8,936,744.00

LOANS TO KANSAS MEMBER BANKS.

Date.	Excessive borrowers. Number of banks.	Excessive borrowers. Basic lines.	Excessive borrowers. Total loans.	Nonexcessive borrowers. Number of banks.	Nonexcessive borrowers. Basic lines.	Nonexcessive borrowers. Total loans.	Nonborrowers. Number of banks.	Nonborrowers. Basic lines.
1920.								
Apr.	42	$4,086,705.00	$7,222,023.93	50	$4,034,280.00	$2,068,027.14	164	$14,143,020.00
May	49	4,694,066.00	8,469,654.85	54	6,406,095.00	2,919,562.77	153	10,843,688.00
June	60	5,200,277.00	8,600,683.41	43	3,554,221.00	1,747,032.02	155	13,064,913.00
July	51	4,586,295.00	7,889,854.37	50	4,140,661.00	2,582,416.30	160	13,611,768.00
Aug.	44	3,363,102.00	5,192,143.77	49	4,699,717.00	3,793,005.73	170	14,289,923.00
Sept.	48	4,323,214.00	7,137,790.88	56	6,445,154.00	3,936,907.63	163	11,790,804.00
Oct.	70	7,216,520.00	12,196,210.44	61	5,053,384.00	2,393,785.70	137	9,267,068.00
Nov.	82	7,405,367.00	13,228,607.64	66	5,317,572.00	2,654,011.13	122	7,528,180.00
Dec.	79	6,209,117.00	10,566,351.55	78	6,711,374.00	3,810,630.33	114	7,354,454.00
1921.								
Jan.	73	5,746,067.00	8,895,933.14	69	4,730,293.00	2,545,577.30	131	10,338,967.00
Feb.	63	4,706,211.00	7,662,866.42	75	4,959,407.00	2,609,923.16	134	10,585,565.00
Mar.	64	4,623,211.00	7,435,131.01	72	5,996,996.00	2,592,483.56	138	9,242,125.00
Apr.	62	4,476,650.00	6,840,884.39	75	4,308,853.00	2,522,780.29	137	10,312,741.00
May	59	4,105,415.00	5,919,932.13	75	4,652,856.00	2,469,420.89	141	10,103,466.00
June	55	2,069,153.00	3,196,625.44	64	5,543,931.00	3,141,568.53	156	11,453,696.00
July	39	1,665,602.00	2,488,386.45	67	5,728,790.00	3,109,728.41	169	12,321,268.00

LOANS TO MISSOURI MEMBER BANKS.

Date.	Excessive borrowers. Number of banks.	Excessive borrowers. Basic lines.	Excessive borrowers. Total loans.	Nonexcessive borrowers. Number of banks.	Nonexcessive borrowers. Basic lines.	Nonexcessive borrowers. Total loans.	Nonborrowers. Number of banks.	Nonborrowers. Basic lines.
1920.								
Apr.	18	$24,684,942.00	$59,828,579.94	15	$2,944,519.00	$2,116,252.62	28	$2,713,709.00
May	21	24,186,710.00	52,338,072.91	15	3,816,834.00	2,611,124.21	25	2,435,427.00
June	22	22,098,411.00	44,228,703.65	14	6,876,517.00	4,074,942.52	24	2,265,463.00
July	23	22,486,941.00	47,896,403.23	16	7,806,754.00	5,221,590.13	21	1,474,511.00
Aug.	21	21,632,252.00	42,899,903.92	16	8,943,688.00	3,466,375.69	23	1,933,637.00
Sept.	26	20,627,310.00	49,817,764.28	12	7,594,771.00	5,024,723.22	22	1,982,336.00
Oct.	29	24,787,649.00	57,207,029.72	12	2,462,062.00	1,663,294.72	18	1,359,803.00
Nov.	30	27,803,294.00	52,116,388.09	13	2,520,334.00	1,709,228.53	16	1,454,402.00
Dec.	25	21,941,286.00	47,847,713.17	17	7,462,838.00	2,990,860.72	16	1,543,533.00
1921.								
Jan.	15	10,607,636.00	23,227,319.77	25	14,874,674.00	10,796,659.20	18	7,732,000.00
Feb.	16	10,699,709.00	20,861,079.64	24	14,247,935.00	10,009,611.94	18	7,915,548.00
Mar.	21	19,203,836.00	30,692,598.93	18	5,703,345.00	3,059,482.31	19	6,864,776.00
Apr.	20	18,454,579.00	28,851,067.66	18	5,706,814.00	3,460,294.66	19	6,773,039.00
May	20	9,440,655.00	14,637,852.58	18	18,766,384.00	11,608,845.26	19	2,489,659.00
June	18	8,277,734.00	11,930,087.19	20	14,697,657.00	11,965,099.33	18	6,657,357.00
July	15	13,881,453.00	17,986,757.72	22	8,463,883.00	5,995,084.64	19	6,646,131.00

Federal reserve bank of Kansas City—Loans to member banks, etc.—Contd.

LOANS TO NEBRASKA MEMBER BANKS.

Date.	Excessive borrowers.			Nonexcessive borrowers.			Nonborrowers.	
	Number of banks.	Basic lines.	Total loans.	Number of banks.	Basic lines.	Total loans.	Number of banks.	Basic lines.
1920.								
Apr.	64	$19,938,192.00	$33,149,239.60	62	$5,129,982.00	$2,885,887.05	81	$5,262,530.00
May	67	16,748,403.00	29,125,564.31	69	5,044,171.00	3,056,947.80	71	4,140,848.00
June	68	13,273,418.00	24,828,240.93	67	8,176,110.00	5,240,751.18	72	4,118,044.00
July	80	14,096,013.00	27,184,183.94	53	6,018,215.00	3,773,073.17	74	4,175,497.00
Aug.	91	14,966,386.00	28,369,933.58	44	5,298,215.00	4,024,832.18	71	4,318,568.00
Sept.	101	17,643,636.00	34,588,091.04	52	3,214,215.00	1,483,506.96	52	2,968,153.00
Oct.	115	16,628,100.00	35,457,048.90	53	3,085,045.00	1,837,127.67	40	2,139,098.00
Nov.	122	14,864,385.00	30,000,120.03	58	5,314,197.00	3,112,827.83	30	1,618,186.00
Dec.	130	16,962,341.00	30,195,332.24	46	2,989,796.00	1,902,383.67	34	1,818,575.00
1921.								
Jan.	120	11,921,726.00	19,934,532.09	49	3,946,928.00	2,464,866.36	41	6,491,847.00
Feb.	108	11,914,884.00	18,710,516.03	56	3,672,117.00	2,018,626.96	46	6,889,313.00
Mar.	99	10,393,940.00	17,779,861.31	58	6,393,688.00	3,709,447.93	51	5,671,784.00
Apr.	100	10,596,752.00	16,890,984.48	61	5,818,023.00	3,515,997.89	48	5,025,541.00
May	92	6,248,302.00	9,507,970.81	61	9,080,736.00	6,008,899.87	56	5,877,471.00
June	89	3,961,801.00	6,199,120.20	57	9,658,836.00	7,081,470.22	63	7,884,622.00
July	78	5,613,047.00	7,753,416.11	64	7,986,294.00	4,397,328.38	67	8,461,733.00

LOANS TO NEW MEXICO MEMBER BANKS.

1920.								
Apr.	1	$210,040.00	$352,730.00	3	$242,092.00	$120,720.00	9	$721,027.00
May	2	216,938.00	418,687.10	3	152,413.00	74,329.00	8	698,328.00
June	4	346,550.00	648,743.31	3	173,287.00	94,121.90	6	563,946.00
July	3	298,105.00	629,889.27	5	413,042.00	238,582.71	5	386,014.00
Aug.	5	411,712.00	715,760.10	4	318,292.00	156,679.09	4	373,039.00
Sept.	6	411,453.00	704,524.60	3	266,544.00	115,605.00	4	355,121.00
Oct.	6	461,234.00	776,785.36	3	224,888.00	137,308.66	4	318,846.00
Nov.	6	450,214.00	812,436.88	4	272,794.00	75,416.71	3	319,279.00
Dec.	6	556,570.00	1,022,121.44	6	358,979.00	182,091.55	1	30,680.00
1921								
Jan.	8	616,548.00	1,066,857.52	4	277,631.00	234,081.05	2	42,575.00
Feb.	8	625,895.00	999,328.04	4	279,549.00	193,756.78	2	48,022.00
Mar.	8	555,610.00	844,677.30	4	363,415.00	177,512.50	2	43,767.00
Apr.	7	421,830.00	553,521.76	5	439,522.00	283,819.09	2	43,100.00
May	6	347,516.00	467,251.19	7	543,441.00	393,256.95	2	43,927.00
June	6	320,396.00	442,722.06	7	661,138.00	454,502.39	2	40,307.00
July	8	535,531.00	724,552.52	4	291,944.00	84,727.99	3	132,934.00

LOANS TO OKLAHOMA MEMBER BANKS.

1920.								
Apr.	22	$2,117,095.00	$2,973,382.17	66	$19,126,766.00	$7,735,842.35	251	$17,339,168.00
May	36	4,133,829.00	6,234,776.11	79	18,166,090.00	9,367,522.83	214	15,004,410.00
June	55	4,086,789.00	6,105,553.62	84	18,780,744.00	10,759,185.93	190	14,346,333.00
July	70	5,493,537.00	7,373,169.91	88	18,725,784.00	11,781,486.93	179	12,429,095.00
Aug.	85	8,883,065.00	14,251,072.33	88	14,830,035.00	9,602,072.19	165	11,189,448.00
Sept.	101	8,979,804.00	18,443,309.55	88	15,146,696.00	9,104,227.46	150	9,620,328.00
Oct.	107	11,280,773.00	17,771,553.90	98	13,492,323.00	9,942,015.35	134	8,464,968.00
Nov.	103	12,753,100.00	18,934,583.60	110	12,105,251.00	8,035,999.62	128	7,750,183.00
Dec.	110	13,706,679.00	19,321,997.73	109	10,813,298.00	6,093,883.43	121	7,739,190.00
1921.								
Jan.	105	10,470,842.00	15,347,196.09	118	13,924,818.00	8,297,760.39	116	8,036,268.00
Feb.	103	6,089,531.00	10,098,527.80	113	17,544,748.00	10,165,274.59	122	8,225,050.00
Mar.	107	5,853,560.00	9,263,278.26	108	17,411,435.00	11,516,220.04	124	7,803,117.00
Apr.	106	6,269,023.00	9,163,998.42	122	16,484,489.00	11,085,056.81	110	6,973,922.00
May	110	6,884,655.00	9,527,284.58	124	15,572,044.00	9,993,896.44	104	6,669,912.00
June	116	8,035,283.00	10,696,641.24	106	13,145,419.00	7,995,589.93	116	7,202,364.00
July	104	7,036,710.00	9,839,676.98	114	12,933,562.00	8,240,141.84	119	1,269,994.00

Federal reserve bank of Kansas City—Loans to member banks, etc.—Contd.

LOANS TO WYOMING MEMBER BANKS.

Date.	Excessive borrowers.			Nonexcessive borrowers.			Nonborrowers.	
	Number of banks.	Basic lines.	Total loans.	Number of banks.	Basic lines.	Total loans.	Number of banks.	Basic lines.
1920.								
Apr.	5	$557,682.00	$650,448.90	11	$1,084,308.00	$503,132.97	30	$3,746,879.00
May	6	617,942.00	1,114,503.55	16	2,073,403.00	861,151.46	24	2,567,443.00
June	11	1,034,263.00	2,067,738.09	14	2,061,885.00	954,752.65	23	2,109,974.00
July	14	954,258.00	2,158,947.91	15	2,664,456.00	1,580,455.94	20	1,692,542.00
Aug.	18	1,991,160.00	3,537,959.27	11	1,650,078.00	945,269.13	20	1,605,111.00
Sept.	19	2,078,566.00	3,488,031.11	10	1,189,779.00	582,135.08	21	1,899,605.00
Oct.	18	1,953,242.00	3,140,836.66	9	1,038,494.00	556,576.17	23	2,133,818.00
Nov.	13	866,900.00	1,510,877.64	12	1,678,051.00	1,131,505.86	25	2,533,254.00
Dec.	16	1,833,422.00	2,423,221.17	14	1,700,931.00	858,411.50	20	1,964,731.00
1921.								
Jan.	11	1,035,969.00	1,485,153.40	23	3,132,339.00	1,965,547.11	17	1,561,958.00
Feb.	13	1,762,984.00	2,338,387.26	22	2,407,844.00	1,358,814.25	16	1,566,661.00
Mar.	17	1,826,527.00	2,729,030.95	17	1,737,275.00	1,135,035.37	17	1,710,416.00
Apr.	19	2,512,160.00	3,804,032.64	17	1,248,422.00	692,811.46	15	1,446,684.00
May	17	2,307,890.00	3,574,753.99	19	1,190,782.00	744,862.78	15	1,516,685.00
June	21	2,286,552.00	3,794,631.60	14	950,095.00	666,392.73	16	1,616,989.00
July	21	2,172,814.00	3,955,107.52	18	1,296,951.00	806,189.95	12	1,269,994.00

Representative TEN EYCK. The way the reserve bank proportioned this money out seems to have been very fair, but I would like to go a step further: What effect did that have upon the individual borrower from the standpoint of those who came in after the member banks had borrowed up to their basic line and borrowed again, when they had to pay a higher rate of interest? The individual who came in after that, was he charged more by those member banks than other customers of theirs were charged who borrowed previously on the same kind of paper?

Mr. MILLER. We have on our application blanks for loans a column that says: What rate of interest did you charge on the notes you are presenting? Knowing that that question would be asked, here is a list of nearly every borrowing bank that we have had, showing the rate of interest it collected from its customers and the rate of discount we charged the borrowing member. It also shows the rate of interest the same bank charged their customers in 1918. 1919. 1920, and 1921; and they paid nearly the full contract rate in the several States—in fact, the record shows that the local banks charged no more when they were paying the progressive rate than they charged before or since, because they always charged all the traffic would bear.

And we went further. We have record of the banks that had borrowed from us, because we require them to state the rate of interest they charge their customers. But in order to get a little more information we put out a questionnaire just a day or two after I received word from the chairman of this commission that he wanted me to appear. We sent that questionnaire to a number of the banks which had not borrowed from us. We asked them to advise us, for statistical purposes, the average rate of interest they had charged their customers during 1918, 1919, 1920, and 1921. And here is a

statement showing the replies received from them, indicating that they charged exactly the same rate as their neighbor who was borrowing at the progressive rates of interest from us. In other words, they were charging all the traffic would bear whether they borrowed or not.

Our records clearly show that not a single bank, city or county, charged its customers more than it would have charged if it had not borrowed at all. His neighbor was not borrowing and he charged as much as the borrowing bank did.

Representative TEN EYCK. The only effect it had on the large borrowers was to make them curtail, which gave you an opportunity to loan to the other banks.

Mr. MILLER. I think that is it.

The CHAIRMAN. You may proceed with your statement.

Mr. MILLER. In the month of April, 1920, we had 278 banks in our district with a basic line of $53,780,000. Those banks in the month of April were borrowing $106,000,000 from us, just double their basic line. In other words, there were 16 per cent of our banks borrowing 84.5 per cent of our lending power.

While that was going on there were 229 banks with a basic line of $44,000,000 that were only borrowing $20,000,000; 656 banks with a basic line of $56,000,000, which were not borrowing at all. Those banks were distributed all over our territory. In other words, the situation would be about like this: A bank that would be borrowing excessively would be on this corner, and a bank that was not borrowing at all would be just across the street on another corner, and the bank that was borrowing moderately might be up the street a block.

The CHAIRMAN. I discovered that situation in going from the figures for the national banks all over the country, and I would like to know what your explanation of it is.

Mr. MILLER. Well, I think it might be explained in more than one way. But you go into a town, Mr. Chairman, and you will find that the clientele varies. You will find one bank that is run at high pressure is getting all the business that it can—of course, assuming that it is all good, but frequently it is not all as good as the banker thinks it is; and it is just as bad as his neighbor thought it was who is doing a more conservative banking business—answering legitimate demands of all its customers; and another that is advising many of its customers that it would not be wise to expand or go into this, that, or the other business. I know that that is true. I have in mind dozens of towns where they have all three classes of banks I have named—and apparently they all do well. Occasionally there is some trouble, but on the whole each banker has his own way of doing business, and they almost without exception make a good showing for their stockholders.

Representative TEN EYCK. Different bankers cater to different classes of trade?

Mr. MILLER. Yes, sir; absolutely. One may be a high-pressure bank, another may be just a moderate banking institution, and another banker of the conservative type, who does not care to have the largest totals, but who sleeps soundly at night.

Representative TEN EYCK. Tell me from your experience and knowledge as regards other Federal reserve banks, do they use the same formula that you use or does each one make up a different formula?

Mr. MILLER. We adopted the formula suggested by the Federal Reserve Board; and I believe, with the exception of the Dallas bank, all other banks adopted the formula of the Federal Reserve Board. The Dallas bank adopted the capital and surplus plan as the basic line. But that plan in many instances, I might say in a majority of the cases, would not be very fair and equitable. In our town we have a bank with $1,000,000 capital and $200,000 surplus. Under the Dallas plan that amount of capital and surplus would have given that bank a line with us of $1,200,000, but that bank only had $2,000,000 of deposits. Right across the street is another bank with $500,000 capital and $250,000 surplus, which would have been entitled to only $750,000, but it had $10,000,000 of deposits. So you may see very readily that that was not a scientific way. Some may think so but we did not.

Now, Mr. Chairman, I have filed with you a monthly statement of the member banks that were borrowing excessively, the basic line of those banks and their borrowings; the banks that were borrowing moderately, that is, under the basic line, showing their basic line and their borrowings; and the member banks that were not borrowing at all, and the whole recapitulated as for the district.

I have also filed with you some information prepared in a slightly different way. For instance, here is the State of Colorado. It shows the member banks, their basic lines, and total borrowings. It shows those borrowing excessively, those borrowing moderately, and those not borrowing at all. So that anybody interested in any State or city in our territory can go down the column and see just the amount of our "liability to extend further credit" to those banks, as on the last day of each month from April, 1920, to July, 1921, inclusive.

Representative TEN EYCK. You would not criticize a member bank for borrowing more than its basic line, would you?

Mr. MILLER. No, sir; on the contrary, here is a record showing about 350 of our banks are always over their basic line.

I wish to insert here the following:

Analysis of distribution of credit of Federal Reserve Bank of Kansas City, basis of Apr. 30, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	26	$2,190,658.00	$2,674,642.52
Kansas	42	4,086,705.00	7,222,023.93
Missouri	18	24,684,942.00	59,828,579.94
Nebraska	64	19,938,192.00	33,149,239.60
New Mexico	1	210,040.00	352,730.00
Oklahoma	22	2,117,095.00	2,973,382.17
Wyoming	5	557,682.00	650,448.90
Total	178	53,785,314.00	106,851,047.36
Per cent	16.8	34.9	84.5
Members borrowing less than basic lines:			
Colorado	22	11,438,612.00	4,214,875.49
Kansas	50	4,034,280.00	2,068,027.14
Missouri	15	2,944,519.00	2,116,252.62
Nebraska	62	5,129,982.00	2,885,887.05
New Mexico	3	242,092.00	120,720.50
Oklahoma	66	19,126,766.00	7,735,842.35
Wyoming	11	1,084,308.00	508,132.97
Total	229	44,000,559.00	19,644,738.12
Per cent	21.5	28.5	15.5
Members not borrowing:			
Colorado	93	12,447,808.00	
Kansas	164	14,143,020.00	
Missouri	28	2,713,709.00	
Nebraska	81	5,262,530.00	
New Mexico	9	721,027.00	
Oklahoma	251	17,339,168.00	
Wyoming	30	3,746,879.00	
Total	656	56,374,141.00	
Per cent	61.7	36.6	
Grand total	1,063	154,160,014.00	126,495,785.48

RECAPITULATION.

State.	Number of banks.	Basic lines, May 1, 1920.	Liability, Apr. 30, [illegible]
Colorado	141	$26,077,078.00	$6,889,518.31
Kansas	256	22,264,005.00	9,290,051.07
Missouri	61	30,343,170.00	61,944,832.56
Nebraska	207	30,330,704.00	36,035,126.65
New Mexico	13	1,173,159.00	473,450.50
Oklahoma	339	38,583,029.00	10,709,224.52
Wyoming	46	5,388,869.00	1,153,581.87
Total	1,063	154,160,014.00	126,495,785.48

Analysis of distribution of credit of Federal Reserve Bank of Kansas City, basis of May 31, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	21	$1,033,948.00	$1,600,429.61
Kansas	49	4,694,066.00	8,469,654.85
Missouri	21	24,186,710.00	52,338,072.91
Nebraska	67	16,748,403.00	29,125,564.31
New Mexico	2	216,938.00	418,687.16
Oklahoma	36	4,133,829.00	6,234,776.11
Wyoming	6	617,942.00	1,114,503.55
Total	202	51,631,836.00	99,301,688.50
Per cent	19.1	35	79
Members borrowing less than basic lines:			
Colorado	45	12,225,546.00	7,400,243.84
Kansas	54	6,406,095.00	2,919,562.77
Missouri	15	3,816,834.00	2,611,124.21
Nebraska	69	5,044,171.00	3,056,947.80
New Mexico	3	152,413.00	74,829.50
Oklahoma	79	18,166,090.00	9,367,522.83
Wyoming	16	2,073,403.00	861,151.46
Total	281	47,884,552.00	26,291,382.41
Per cent	26.6	32.5	21
Members not borrowing:			
Colorado	77	12,367,584.00	
Kansas	153	10,843,688.00	
Missouri	25	2,435,427.00	
Nebraska	71	4,140,848.00	
New Mexico	8	698,328.00	
Oklahoma	214	15,004,410.00	
Wyoming	24	2,567,443.00	
Total	572	48,057,728.00	
Per cent	54.3	32.5	
Grand total	1,055	147,574,116.00	125,593,070.91

RECAPITULATION.

State.	Number of banks.	Basic lines, June 1, 1920.	Liability, May 31, 1920.
Colorado	143	$25,627,078.00	$9,000,673.45
Kansas	256	21,943,849.00	11,389,217.62
Missouri	61	30,438,971.00	54,949,197.12
Nebraska	207	25,933,422.00	32,182,512.11
New Mexico	13	1,067,679.00	493,516.66
Oklahoma	329	37,304,329.00	15,602,298.94
Wyoming	46	5,258,788.00	1,975,655.01
Total	1,055	147,574,116.00	125,593,070.91

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of June 30, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	33	$2,289,020.00	$4,662,143.97
Kansas	60	5,200,277.00	8,600,683.41
Missouri	22	22,098,411.00	44,228,703.65
Nebraska	68	13,273,418.00	24,828,240.93
New Mexico	4	346,550.00	648,743.31
Oklahoma	55	4,086,789.00	6,105,553.62
Wyoming	11	1,034,263.00	2,067,738.09
Total	253	48,328,728.00	91,141,806.98
Per cent	23.9		75.1
Members borrowing less than basic lines:			
Colorado	46	11,962,433.00	7,339,207.78
Kansas	43	3,554,221.00	1,747,032.02
Missouri	14	6,876,517.00	4,074,942.52
Nebraska	67	8,176,110.00	5,240,751.18
New Mexico	3	173,287.00	94,121.90
Oklahoma	84	18,780,744.00	10,759,185.93
Wyoming	14	2,061,885.00	954,752.65
Total	271	51,585,197.00	30,209,993.98
Per cent	25.6	34.9	24.9
Members not borrowing:			
Colorado	64	11,608,071.00	
Kansas	155	13,064,913.00	
Missouri	24	2,265,463.00	
Nebraska	72	4,118,044.00	
New Mexico	6	563,946.00	
Oklahoma	190	14,346,333.00	
Wyoming	23	2,109,974.00	
Total	534	48,076,744.00	
Per cent	50.5	32.4	
Grand total	1,058	147,990,069.00	121,351,800.96

RECAPITULATION.

State.	Number of banks.	Basic lines. July 1, 1920.	Liability, June 30, 1920.
Colorado	143	25,850,524.00	12,001,351.75
Kansas	258	21,819,411.00	10,347,715.43
Missouri	60	31,240,391.00	48,303,646.17
Nebraska	207	25,567,572.00	30,068,992.11
New Mexico	13	1,083,783.00	742,865.21
Oklahoma	329	37,213,866.00	16,864,739.55
Wyoming	48	5,206,122.00	3,022,490.74
Total	1,058	147,990,069.00	121,351,800.96

Analysis of distribution of credit of Federal Reserve Bank of Kansas City, basis of July 31, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	39	$12,566,275.00	$5,210,933.49
Kansas	51	4,586,296.00	7,889,854.37
Missouri	23	22,486,941.00	47,896,408.23
Nebraska	80	14,096,013.00	27,184,183.94
New Mexico	3	298,105.00	629,889.27
Oklahoma	70	5,493,537.00	7,373,169.91
Wyoming	14	954,258.00	2,158,947.91
Total	280	50.481,424.00	98,343,382.12
Per cent	26.1	34.4	73.9
Members borrowing less than basic lines:			
Colorado	40	13,447,701.00	9,616,485.91
Kansas	50	4,140,661.00	2,582 416.30
Missouri	16	7,806,754.00	5,221,590.13
Nebraska	53	6,018,215.00	3,773,073.17
New Mexico	5	413,042.00	238,582.71
Oklahoma	88	18,725,784.00	11,781,486.93
Wyoming	15	2,664.456.00	1,580,455.94
Total	267	53,216,613.00	34.794,091.09
Per cent	24.9	36.2	26.1
Members not borrowing:			
Colorado	66	9,421,911.00	....
Kansas	160	13,611,768.00	....
Missouri	21	1,474,511.00	....
Nebraska	74	4,175,497.00	....
New Mexico	5	386,014.00	....
Oklahoma	179	12,429,095.00	....
Wyoming	20	1,692,542.00	....
Total	525	43,191,338.00	....
Per cent	49	29.4	....
Grand total	1,072	146,889,375.00	133,137,473.21

RECAPITULATION.

State.	Number of banks.	Basic lines, Aug. 1, 1920.	Liability, July 31, 1920.
Colorado	145	25,435,887.00	14,827,419.40
Kansas	261	22,888,724.00	10,472,270.67
Missouri	60	31,768,206.00	53,117,998.36
Nebraska	207	24,289,725.00	30,957,257.11
New Mexico	13	1,097,161.00	868,471.98
Oklahoma	337	36,648,416.00	19,154,656.84
Wyoming	49	5,311,256.00	3,739,403.85
Total	1,072	146,889,375.00	133,137,473.21

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of Aug. 31, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	42	$2,637,481.00	$5,353,396.10
Kansas	44	3,363,102.00	5,192,143.77
Missouri	21	21,632,252.00	42,899,903.92
Nebraska	91	14,966,386.00	28,369,933.56
New Mexico	5	411,712.00	715,760.10
Oklahoma	85	8,883,065.00	14,251,072.33
Wyoming	18	1,991,160.00	3,537,950.27
Total	306	53,885,158.00	100,320,169.07
Per cent	28.5	36.9	77
Members borrowing less than basic lines:			
Colorado	44	14,361,196.00	7,942,917.31
Kansas	49	4,699,717.00	3,793,005.73
Missouri	16	8,943,688.00	3,466,375.60
Nebraska	44	5,298,215.00	4,024,832.18
New Mexico	4	318,292.00	156,679.00
Oklahoma	88	14,830,035.00	9,602,072.19
Wyoming	11	1,650,078.00	945,269.13
Total	256	50,101,221.00	29,931,151.22
Per cent	23.8	34.4	23
Members not borrowing:			
Colorado	60	8,011,975.00	....
Kansas	170	14,289,923.00	....
Missouri	23	1,933,637.00	....
Nebraska	71	4,316,568.00	....
New Mexico	4	373,039.00	....
Oklahoma	165	11,189,448.00	....
Wyoming	20	1,605,111.00	....
Total	513	41,719,701.00	....
Per cent	47.7	28.7	....
Grand total	1,075	145,706,080.00	130,251,320.39

RECAPITULATION.

State.	Number of banks.	Basic lines Sept. 1, 1920.	Liability Aug. 31, 1920.
Colorado	146	$25,010,652.00	$13,296,313.41
Kansas	263	22,352,742.00	8,985,149.50
Missouri	60	32,509,577.00	46,386,278.61
Nebraska	206	24,581,169.00	32,394,765.76
New Mexico	13	1,103,043.00	872,499.19
Oklahoma	338	34,902,548.00	23,853,144.52
Wyoming	49	5,246,349.00	4,483,225.49
Total	1,075	145,706,080.00	130,251,320.39

Analysis of distribution of credit of Federal reserve bank at Kansas City, basis of Sept. 30, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	37	$1,922,215.00	$4,173,504.21
Kansas	48	4,323,214.00	7,137,790.88
Missouri	26	20,627,310.00	49,817,764.28
Nebraska	101	17,643,636.00	34,588,091.04
New Mexico	6	411,453.00	704,524.60
Oklahoma	101	8,979,804.00	18,443,309.56
Wyoming	19	2,078,566.00	3,488,031.11
Total	338	55,986,198.00	118,353,105.68
Per cent	31.3	39.7	78.8
Members borrowing less than basic lines:			
Colorado	50	16,136,533.00	11,523,498.91
Kansas	56	6,445,154.00	3,936,907.63
Missouri	12	7,594,771.00	5,024,728.22
Nebraska	52	3,214,215.00	1,483,506.96
New Mexico	3	266,544.00	115,605.00
Oklahoma	88	15,146,696.00	9,104,227.46
Wyoming	10	1,189,779.00	582,135.08
Total	271	49,993,692.00	31,770,509.26
Per cent	25.1	35.4	21.2
Members not borrowing:			
Colorado	59	6,431,438.00	
Kansas	163	11,790,804.00	
Missouri	22	1,982,336.00	
Nebraska	52	2,968,153.00	
New Mexico	4	355,121.00	
Oklahoma	150	9,620,328.00	
Wyoming	21	1,899,605.00	
Total	471	35,047,785.00	
Per cent	43.6	24.9	
Grand total	1,080	141,027,675.00	150,123,704.94

RECAPITULATION.

State.	Number of banks.	Basic lines Oct. 1, 1920.	Liability, Sept. 30, 1920.
Colorado	146	$24,490,186.00	$15,697,088.12
Kansas	267	22,559,172.00	11,074,698.51
Missouri	60	30,204,417.00	54,842,487.50
Nebraska	205	23,826,004.00	36,071,598.00
New Mexico	13	1,033,118.00	820,129.60
Oklahoma	339	33,746,828.00	27,547,537.02
Wyoming	50	5,167,950.00	4,070,166.19
Total	1,080	141,027,675.00	150,123,704.94

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of Oct. 31, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	42	$2,442,097.00	$5,013,744.55
Kansas	70	7,216,520.00	12,196,210.44
Missouri	29	24,787,649.00	57,207,039.72
Nebraska	115	16,628,100.00	36,457,048.90
New Mexico	6	461,234.00	776,785.36
Oklahoma	107	11,280,773.00	17,771,553.90
Wyoming	18	1,953,242.00	3,140,836.06
Total	387	64,769,615.00	132,563,206.93
Per cent	35.7	47.4	83.9
Members borrowing less than basic lines:			
Colorado	46	15,881,015.00	8,988,162.52
Kansas	61	5,053,384.00	2,398,785.70
Missouri	12	2,465,062.00	1,663,294.72
Nebraska	53	3,085,045.00	1,837,127.07
New Mexico	3	224,888.00	137,308.66
Oklahoma	98	13,492,323.00	9,942,015.35
Wyoming	9	1,038,494.00	556,576.17
Total	282	41,240,211.00	25,518,270.19
Per cent	26	30.2	16.1
Members not borrowing:			
Colorado	58	7,044,596.00	....
Kansas	137	9,267,068.00	....
Missouri	18	1,359,803.00	....
Nebraska	40	2,139,096.00	....
New Mexico	4	318,846.00	....
Oklahoma	134	8,464,968.00	....
Wyoming	23	2,133,818.00	....
Total	414	30,728,197.00	....
Per cent	38.3	22.4	....
Grand total	1,083	136,738,023.00	158,081,479.12

RECAPITULATION.

State.	Number of banks.	Basic lines, Nov. 1, 1920.	Liability, Oct. 31, 1920.
Colorado	146	$25,367,708.00	$14,001,907.07
Kansas	268	21,336,972.00	14,[illegible]
Missouri	59	28,612,514.00	58,870,[illegible]
Nebraska	208	21,852,243.00	38,294,[illegible]
New Mexico	13	1,004,968.00	914,[illegible]
Oklahoma	339	33,238,064.00	27,713,[illegible]
Wyoming	50	5,125,554.00	3,697,412.23
Total	1,083	136,738,023.00	158,081,479.12

Analysis of distribution of credits of Federal reserve bank of Kansas City, basis of Nov. 30, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	36	$2,231,382.00	$3,874,287.49
Kansas	82	7,405,367.00	13,228,607.64
Missouri	30	27,803,294.00	52,116,388.09
Nebraska	122	14,864,385.00	30,000,120.03
New Mexico	6	450,214.00	812,436.88
Oklahoma	103	12,753,100.00	18,934,583.60
Wyoming	13	866,900.00	1,510,877.64
Total	392	66,374,642.00	120,477,301.37
Per cent	36	48.2	84
Members borrowing less than basic lines:			
Colorado	43	15,365,241.00	6,160,664.65
Kansas	66	5,317,572.00	2,654,011.13
Missouri	13	2,520,334.00	1,709,228.53
Nebraska	58	5,314,197.00	3,112,827.83
New Mexico	4	272,794.00	75,416.71
Oklahoma	110	12,105,251.00	8,035,999.62
Wyoming	12	1,678,051.00	1,131,505.86
Total	306	42,573,440.00	22,879,654.33
Per cent	28.1	30.9	16
Members not borrowing:			
Colorado	67	7,601,302.00	....
Kansas	122	7,528,188.00	....
Missouri	16	1,454,402.00	....
Nebraska	30	1,618,186.00	....
New Mexico	3	319,279.00	....
Oklahoma	128	7,750,183.00	....
Wyoming	25	2,533,254.00	....
Total	391	28,804,794.00	....
Per cent	35.9	20.9	....
Grand total	1,089	137,752,876.00	143,356,955.70

RECAPITULATION.

State.	Number of banks.	Basic lines Dec. 1, 1920.	Liability Nov. 30, 1920.
Colorado	146	$25,197,925.00	$10,034,952.14
Kansas	270	20,251,127.00	15,882,618.77
Missouri	59	31,778,090.00	53,825,616.62
Nebraska	210	21,796,768.00	33,112,947.86
New Mexico	13	1,042,287.00	887,853.59
Oklahoma	241	32,608,534.00	26,970,583.22
Wyoming	50	5,078,205.00	2,642,383.50
Total	1,089	137,752,876.00	143,356,955.70

Analysis of distribution of credits of Federal reserve bank of Kansas City, basis of Dec. 31, 1920.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	50	$3,027,160.00	$5,951,738.27
Kansas	79	6,209,117.00	10,566,351.55
Missouri	25	21,941,286.00	47,847,713.17
Nebraska	130	16,962,341.00	30,195,332.24
New Mexico	6	556,570.00	1,022,121.44
Oklahoma	110	13,706,679.00	19,321,997.73
Wyoming	16	1,833,422.00	2,423,221.17
Total	416	64,236,575.00	117,328,475.57
Per cent	38.3	47.9	84.2
Members borrowing less than basic lines:			
Colorado	34	10,060,889.00	6,102,696.48
Kansas	78	6,711,374.00	3,810,630.33
Missouri	17	7,462,838.00	2,990,868.72
Nebraska	46	2,989,796.00	1,902,333.67
New Mexico	6	358,979.00	182,091.55
Oklahoma	109	10,813,298.00	6,093,883.43
Wyoming	14	1,700,931.00	858,411.50
Total	304	40,098,105.00	21,940,907.68
Per cent	27.9	29.9	15.8
Members not borrowing:			
Colorado	62	9,115,733.00	
Kansas	114	7,354,454.00	
Missouri	16	1,543,533.00	
Nebraska	34	1,848,575.00	
New Mexico	1	30,680.00	
Oklahoma	121	7,739,190.00	
Wyoming	20	1,964,731.00	
Total	368	29,596,896.00	
Per cent	33.8	22.2	
Grand total	1,088	133,931,576.00	139,269,383.25

RECAPITULATION.

State.	Number of banks.	Basic lines, Jan., 1921.	Liability, Dec. 31, 1921.
Colorado	146	$22,203,782.00	$12,054,434.75
Kansas	271	20,274,945.00	14,376,981.88
Missouri	58	30,947,657.00	50,838,581.89
Nebraska	210	21,800,712.00	32,097,665.91
New Mexico	13	946,229.00	1,204,212.99
Oklahoma	340	32,259,167.00	25,415,881.16
Wyoming	50	5,499,084.00	3,281,632.67
Total	1,088	133,931,576.00	139,269,383.25

Analysis of distribution of credits of Federal reserve bank of Kansas City, basis of Jan. 31, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	53	$3,140,368.00	$6,022,507.35
Kansas	73	5,746,067.00	8,896,938.14
Missouri	15	10,607,636.00	23,227,319.77
Nebraska	120	11,921,726.00	19,984,532.09
New Mexico	8	616,548.00	1,066,857.52
Oklahoma	105	10,470,842.00	15,347,196.09
Wyoming	11	1,035,969.00	1,485,153.40
Total	385	43,539,156.00	75,979,499.36
Per cent	35.3	31.2	70.3
Members borrowing less than basic lines:			
Colorado	37	10,310,308.00	5,819,048.29
Kansas	69	4,730,293.00	2,545,577.30
Missouri	25	14,874,674.00	10,796,659.20
Nebraska	49	3,946,928.00	2,464,866.36
New Mexico	4	277,631.00	234,081.05
Oklahoma	118	13,924,818.00	8,297,760.39
Wyoming	23	3,132,339.00	1,965,547.11
Total	325	51,196,991.00	32,123,539.70
Per cent	29.8	36.6	29.7
Members not borrowing:			
Colorado	56	10,772,412.00	
Kansas	131	10,338,967.00	
Missouri	18	7,732,000.00	
Nebraska	41	6,491,847.00	
New Mexico	2	42,575.00	
Oklahoma	116	8,036,268.00	
Wyoming	17	1,561,958.00	
Total	381	44,976,027.00	
Per cent	34.9	32.2	
Grand total	1,091	139,712,174.00	108,103,039.06

RECAPITULATION.

State.	Number of banks.	Basic lines, Feb., 1921.	Liability, Jan. 31, 1921.
Colorado	146	$24,223,088.00	$11,841,555.64
Kansas	273	20,815,327.00	11,441,510.44
Missouri	58	33,214,310.00	34,023,978.97
Nebraska	210	22,360,501.00	22,399,398.45
New Mexico	14	936,754.00	1,300,938.57
Oklahoma	339	32,431,928.00	23,644,956.48
Wyoming	51	5,730,266.00	3,450,700.51
Total	1,091	139,712,174.00	108,103,039.06

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of Feb. 28, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	55	$2,946,937.00	$5,836,659.60
Kansas	63	4,706,211.00	7,662,866.42
Missouri	16	10,699,709.00	20,861,079.64
Nebraska	108	11,914,884.00	18,710,516.03
New Mexico	8	625,895.00	999,328.04
Oklahoma	103	6,089,531.00	10,098,527.80
Wyoming	13	1,762,984.00	2,338,387.26
Total	366	38,746,151.00	66,507,364.79
Per cent	33.6	28.1	67.7
Members borrowing less than basic lines:			
Colorado	32	11,676,470.00	5,372,708.14
Kansas	75	4,959,407.00	2,609,923.16
Missouri	24	14,247,935.00	10,009,611.94
Nebraska	56	3,672,117.00	2,018,626.96
New Mexico	4	279,549.00	193,756.78
Oklahoma	113	17,544,748.00	10,165,274.59
Wyoming	22	2,407,844.00	1,358,814.25
Total	326	54,788,070.00	31,718,715.82
Per cent	30	39.8	32.3
Members not borrowing:			
Colorado	58	8,951,017.00	
Kansas	134	10,585,565.00	
Missouri	18	7,915,548.00	
Nebraska	46	6,889,313.00	
New Mexico	2	48,022.00	
Oklahoma	122	8,226,050.00	
Wyoming	16	1,566,661.00	
Total	396	44,182,176.00	
Per cent	36.4	32.1	
Grand total	1,088	137,716,397.00	98,226,080.61

RECAPITULATION.

State.	Number of banks.	Basic lines, Mar., 1921.	Amount borrowed Feb. 28, 1921.
Colorado	145	$23,574,424.00	$11,209,367.74
Kansas	272	20,251,183.00	10,272,789.58
Missouri	58	32,863,192.00	30,870,691.58
Nebraska	210	22,476,314.00	20,729,142.99
New Mexico	14	953,466.00	1,193,084.82
Oklahoma	338	31,860,329.00	20,263,802.39
Wyoming	51	5,737,489.00	3,697,201.51
Total	1,088	137,716,397.00	98,226,080.61

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of Mar. 31, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	45	$2,575,805.00	$4,457,061.04
Kansas	64	4,623,211.00	7,435,131.01
Missouri	21.	19,203,836.00	30,692,548.93
Nebraska	99	10,393,940.00	17,779,861.31
New Mexico	8	555,610.00	844,677.30
Oklahoma	107	5,853,560.00	9,263,278.26
Wyoming	17	1,826,527.00	2,729,030.95
Total	361	45,032,489.00	73,201,638.80
Per cent	33.2	33.4	73.2
Members borrowing less than basic lines:			
Colorado	42	9,351,896.00	4,314,018.59
Kansas	72	5,996,996.00	2,952,483.56
Missouri	18	5,703,345.00	3,059,482.31
Nebraska	58	6,393,688.00	3,709,447.93
New Mexico	4	363,415.00	177,512.50
Oklahoma	108	17,411,435.00	11,516,220.04
Wyoming	17	1,737,275.00	1,135,035.37
Total	319	46,958,050.00	26,864,200.30
Per cent	29.3	34.9	26.8
Members not borrowing:			
Colorado	58	11,409,632.00	
Kansas	138	9,242,125.00	
Missouri	19	6,864,776.00	
Nebraska	51	5,671,784.00	
New Mexico	2	43,767.00	
Oklahoma	124	7,803,117.00	
Wyoming	17	1,710,416.00	
Total	409	42,745,617.00	
Per cent	37.5	31.7	
Grand total	1,089	134,736,156.00	100,065,839.10

RECAPITULATION.

State.	Number of banks.	Basic lines, April, 1921.	Liability, Mar. 31, 1921.
Colorado	145	$23,337,333.00	$8,771,079.63
Kansas	275	19,862,332.00	10,387,614.57
Missouri	58	31,771,957.00	33,752,081.24
Nebraska	208	22,459,412.00	21,489,309.24
New Mexico	14	962,792.00	1,022,189.80
Oklahoma	338	31,068,112.00	20,779,498.30
Wyoming	51	5,274,218.00	3,864,066.32
Total	1,089	134,736,156.00	100,065,839.10

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of Apr. 30, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	46	$2,295,421.00	$3,765,966.39
Kansas	62	4,476,650.00	6,840,884.39
Missouri	20	18,454,579.00	28,851,067.66
Nebraska	100	10,596,752.00	16,890,984.48
New Mexico	7	421,830.00	553,521.76
Oklahoma	106	6,269,023.00	9,163,998.42
Wyoming	19	2,512,160.00	3,804,032.64
Total	360	45,026,415.00	69,870,455.74
Per cent	33.1	34.7	72.9
Members borrowing less than basic lines:			
Colorado	46	9,681,295.00	4,327,315.20
Kansas	75	4,308,853.00	2,522,780.29
Missouri	18	5,706,814.00	3,460,294.66
Nebraska	61	5,818,023.00	3,515,997.89
New Mexico	5	439,522.00	283,819.09
Oklahoma	122	16,484,489.00	11,085,056.81
Wyoming	17	1,248,422.00	692,811.46
Total	344	43,687,418.00	25,888,075.40
Per cent	31.6	33.6	27.1
Members not borrowing:			
Colorado	53	10,566,360.00	....
Kansas	137	10,312,741.00	....
Missouri	19	6,773,039.00	....
Nebraska	48	5,025,541.00	....
New Mexico	2	43,100.00	....
Oklahoma	110	6,973,922.00	....
Wyoming	15	1,446,684.00	....
Total	384	41,141,387.00	....
Per cent	35.3	31.7	....
Grand total	1,088	129,855,220.00	95,758,531.14

RECAPITULATION.

State.	Number of banks.	Basic lines, May, 1921.	Liability, Apr. 30, 1921.
Colorado	145	$22,543,076.00	$8,093,281.59
Kansas	274	19,098,244.00	9,363,664.68
Missouri	57	30,934,432.00	32,311,362.32
Nebraska	209	21,440,316.00	20,406,982.37
New Mexico	14	904,542.00	837,340.85
Oklahoma	338	29,727,434.00	20,249,055.23
Wyoming	51	5,207,266.00	4,496,844.10
Total	1,088	129,855,220.00	95,758,531.14

Analysis of distribution of credits of Federal reserve bank of Kansas City, basis of May 31, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	50	$2,219,400.00	$3,553,932.30
Kansas	59	4,105,415.00	5,919,932.13
Missouri	20	9,440,655.00	14,637,852.58
Nebraska	92	6,248,302.00	9,507,970.81
New Mexico	6	347,516.00	467,251.19
Oklahoma	110	6,884,655.00	9,527,284.58
Wyoming	17	2,307,890.00	3,574,753.99
Total	354	31,553,833.00	47,188,977.58
Per cent	32.5	24.6	57.6
Members borrowing less than basic lines:			
Colorado	38	6,641,507.00	3,461,015.49
Kansas	75	4,652,856.00	2,469,420.89
Missouri	18	18,766,384.00	11,608,845.26
Nebraska	61	9,480,736.00	6,008,899.87
New Mexico	7	543,441.00	393,256.95
Oklahoma	124	15,572,044.00	9,993,896.44
Wyoming	19	1,190,782.00	744,862.78
Total	342	56,847,750.00	34,680,197.68
Per cent	31.4	44.3	42.4
Members nonborrowing:			
Colorado	57	13,162,031.00	
Kansas	141	10,103,466.00	
Missouri	19	2,489,659.00	
Nebraska	56	5,877,471.00	
New Mexico	2	43,927.00	
Oklahoma	104	6,669,912.00	
Wyoming	15	1,516,685.00	
Total	394	39,863,151.00	
Per cent	36.1	31.1	
Grand total	1,090	128,264,734.00	81,869,175.26

RECAPITULATION.

State.	Number of banks.	Basic lines, June, 1921.	Liability, May 31, 1921.
Colorado	145	$22,022,938.00	$7,014,947.79
Kansas	275	18,861,737.00	8,389,353.02
Missouri	57	30,696,698.00	26,246,697.84
Nebraska	209	21,606,509.00	15,516,870.68
New Mexico	15	934,884.00	860,508.14
Oklahoma	338	29,126,611.00	19,521,181.02
Wyoming	51	5,015,357.00	4,319,616.77
Total	1,090	128,264,734.00	81,869,175.26

Analysis of distribution of credit of Federal reserve bank of Kansas City, basis of June 30, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	58	$2,467,799.00	$3,977,911.03
Kansas	55	2,069,153.00	3,196,625.44
Missouri	18	8,277,734.00	11,930,087.19
Nebraska	89	3,961,801.00	6,199,120.20
New Mexico	6	320,396.00	442,722.06
Oklahoma	116	8,035,283.00	10,696,641.24
Wyoming	21	2,286,552.00	3,794,631.60
Total	363	27,418,718.00	40,237,738.76
Per cent	33.3	21.8	51.2
Members borrowing less than basic lines:			
Colorado	39	12,859,116.00	7,059,651.79
Kansas	64	5,543,931.00	3,141,568.53
Missouri	20	14,697,657.00	11,965,099.33
Nebraska	57	9,658,836.00	7,081,470.22
New Mexico	7	661,138.00	454,502.39
Oklahoma	106	13,145,419.00	7,995,589.93
Wyoming	14	950,095.00	666,392.73
Total	307	57,516,192.00	38,364,274.92
Per cent	28.1	45.7	48.8
Members nonborrowing:			
Colorado	49	6,124,487.00	
Kansas	156	11,453,696.00	
Missouri	18	6,657,357.00	
Nebraska	63	7,884,622.00	
New Mexico	2	40,307.00	
Oklahoma	116	7,202,364.00	
Wyoming	16	1,616,989.00	
Total	420	40,979,822.00	
Per cent	38.6	32.5	
Grand total	1,090	125,914,732.00	78,602,013.68

RECAPITULATION.

State.	Number of banks.	Basic lines, July, 1921.	Liability, June 30, 1921.
Colorado	146	$21,451,402.00	$11,037,562.82
Kansas	275	19,066,780.00	6,338,193.97
Missouri	56	29,632,748.00	23,895,186.52
Nebraska	209	21,505,259.00	13,280,590.42
New Mexico	15	1,021,841.00	897,224.45
Oklahoma	338	28,383,066.00	18,692,231.17
Wyoming	51	4,853,636.00	4,461,024.33
Total	1,090	125,914,732.00	78,602,013.68

Analysis of distribution of credit of Federal Reserve Bank of Kansas City, basis of July 31, 1921.

State.	Number of banks.	Basic lines.	Amount borrowed.
Members borrowing in excess of basic lines:			
Colorado	62	$2,910,222.00	$4,687,691.88
Kansas	39	1,665,602.00	2,488,396.45
Missouri	15	13,881,453.00	17,986,757.72
Nebraska	78	5,613,047.00	7,753,416.11
New Mexico	8	535,531.00	724,552.52
Oklahoma	104	7,036,710.00	9,839,676.98
Wyoming	21	2,172,814.00	3,955,107.52
Total	327	33,815,379.00	47,435,589.18
Per cent	30	27.1	63.7
Members borrowing less than basic lines:			
Colorado	35	9,359,400.00	4,364,055.59
Kansas	67	5,728,790.00	3,109,728.41
Missouri	22	8,463,883.00	5,995,084.64
Nebraska	64	7,986,294.00	4,397,328.38
New Mexico	4	291,944.00	84,727.99
Oklahoma	114	12,933,562.00	8,240,141.84
Wyoming	18	1,296,951.00	806,189.95
Total	324	46,060,824.00	26,997,256.80
Per cent	29.8	36.9	36.3
Members not borrowing:			
Colorado	49	8,936,744.00	
Kansas	169	12,321,268.00	
Missouri	19	6,646,131.00	
Nebraska	67	8,461,733.00	
New Mexico	3	132,934.00	
Oklahoma	119	7,131,524.00	
Wyoming	12	1,269,994.00	
Total	438	44,900,328.00	
Per cent	40.2	36	
Grand total	1,089	124,776,531.00	74,432,845.98

RECAPITULATION.

State.	Number of banks.	Basic lines, August, 1921.	Liability, July 31, 1921.
Colorado	146	$21,206,366.00	$9,051,747.47
Kansas	275	19,715,660.00	5,598,114.86
Missouri	56	28,991,467.00	23,981,842.36
Nebraska	209	22,061,074.00	12,150,744.49
New Mexico	15	960,409.00	809,280.51
Oklahoma	337	27,101,796.00	18,079,818.82
Wyoming	51	4,739,759.00	4,761,297.47
Total	1,089	124,776,531.00	74,432,845.98

Now, Mr. Chairman, some suggestion has been made that some Federal reserve banks in agricultural districts have required excessive collateral from their members.

The CHAIRMAN. You mean the Federal reserve banks?

Mr. MILLER. That the Federal reserve banks have. We have prepared here about 50 or 60 of the cases where we have required the greatest amount of collateral and the amount of liability, and we have given the reasons for asking that collateral.

Here is a bank with a basic line of $17,000 that owed us $119,000; that is six times its basic line. We required general collateral of

$42,000. I am giving you the cases that are the very largest proportion and every case that would be regarded as excessive.

The CHAIRMAN. That is $42,000 in excess of the 100 per cent?

Mr. MILLER. No; this bank has a basic line of $17,000, but, indeed, owed us $119,000. Now, in addition to the $119,000, which represented the discounts, we required of them $42,000 general collateral. That is, $42,000, as compared with $119,000 of indebtedness which we were carrying. The reason we did that was that its condition was admitted to be much overextended. Nobody would contradict that a bank with a $17,000 basic line owing us $119,000 was overextended. That is six times. Now, that is a Kansas bank.

Reserve balances were more or less deficient during the greater part of 1920. Upon reduction of liability to basic line, September, 1920, the general collateral was returned. The very moment it reduced its basic line we returned the collateral. The basic line fluctuated during 1920 from $34,000 to $11,000.

Now, under section 4 the officers and directors of a Federal reserve bank are charged with managing the affairs of the bank impartially and with making such advances to members as may be safe and reasonable, but with due regard to other members.

We have proceeded on the basis that we were not only entitled to be secure but were charged with making loans to member banks that would insure the return of the money with interest; otherwise we would have been negligent with the revenues of this Government, which inherits all of the excess earnings of a Federal reserve bank over expenses and the dividends to its members.

I could read each one of these cases, out of which we have had seven failures, and have just barely had enough collateral to come out whole. We have two or three cases of failed banks on our hands at this moment. In each case we have collateral which, we think, will make us whole, but do not absolutely know.

The CHAIRMAN. There seems to be a large number of people who think that it is a part of the function of the Federal reserve banks to assume some part of the risk of that management on the part of the member banks; what do you have to say about that?

Mr. MILLER. Mr. Chairman, I do not quite understand you.

The CHAIRMAN. I say, it seems to be the opinion of some people that it is a part of the function of the Federal reserve banks to assume some part of the risk incident to the bad management on the part of member banks. In other words, if a member bank is becoming overextended, that, instead of requiring collateral which would assure the Federal reserve bank against any loss, the Federal reserve bank ought to take some part of the risk.

Mr. MILLER. Well, I don't know where anybody could get that interpretation from the Federal reserve act. In fact, I think that that is absolutely unsound. I do not believe the Federal reserve bank was intended to take any more than the ordinary business risk, and consistent with sound banking. We have never done it.

The CHAIRMAN. Of course, a policy of that sort, I take it, would put the Federal reserve banks in the position of a guarantor of the member bank, would it not?

Mr. MILLER. You mean, guaranteeing its continuance?

The CHAIRMAN. Yes.

Mr. MILLER. Well, we do not guarantee their continuance, but in dozens of cases we have saved them from bankruptcy, or from the hands of a receiver, because when we feel that a bank is solvent, although overextended, if there is any chance at all to save that bank and its clientele from disaster we give it every aid that it is possible to give up to the very point of taking the risk ourselves. We feel, however, Mr. Chairman, that we are not called upon to assume the risk and losses of an insolvent institution which has been brought to that State by unsound management. We could give you instances by the dozens where we have had all-night sessions to save such banks, and we have saved them; but we have always tried to save them with a view of not absolutely assuming the loss ourselves, and have succeeded very well so far.

Representative TEN EYCK. You do not consider that it is your duty to guarantee them against disease, but you will help them out and cure them if possible?

Mr. MILLER. Yes; and neither do we consider it our duty to try to pump solvency into an insolvent institution. We can not do it, because if a bank is insolvent and is not worthy to exist we do not feel it our duty to go to the same extent that we would for a solvent bank—a well-managed bank, one that is even overextended to the point of danger.

The CHAIRMAN. Have you made any separation of the credit extended to the banks, say, in Kansas City and St. Joe, Mo., as compared with the credits extended to the rest of the State of Missouri?

Mr. MILLER. I can tell you from this [referring to table of figures]. Here is a chart or map representing the loans to Kansas City banks. This was prepared for another purpose, but it will answer your question. During January we were lending Kansas City banks $39,697,251.

The CHAIRMAN. That is in January, 1920?

Mr. MILLER. Yes. We were lending Kansas City banks that amount during that time.

The CHAIRMAN. That is January, 1921, is it not, instead of January, 1920?

Mr. MILLER. Yes; I should have said January, 1921.

During February we were lending $30,309,211. This map was prepared for the purpose of exhibiting to the Kansas City banks and to this commission that during the time New York was charging 7 per cent the average rate to Kansas City banks was 6.35.

The CHAIRMAN. The point I am getting at is that the general statement has been made that agriculture was discriminated against, and that a more liberal policy was pursued with respect to the city banks and commercial banks than was extended to the interior country banks.

Mr. MILLER. Yes, sir. Mr. Chairman, for the entire year of 1920 our loans averaged $128,959,615.38, of which $79,000,000 was directly in the interest of agriculture.

The CHAIRMAN. How do you get that figure of $79,000,000?

Mr. MILLER. Well, it is $79,359,798.79. That comprised loans we made to the nonreserve city banks, which is the agricultural part of our country.

The CHAIRMAN. That is what I wanted to ascertain.

Mr. MILLER. In other words, there never has been a day since the Federal Reserve Bank of Kansas City opened that more than 50 per cent of its total loans were not to agricultural or live-stock interests, directly and indirectly.

The CHAIRMAN. We had a gentleman here the other day who referred to inability of large cattle operators to secure loans, either in their own localities or through the larger banks. Do you mind advising us what your judgment is as to that situation?

Mr. MILLER. Mr. Chairman, the cattle interests of our district is the paramount interest, and it is so very large that, in so far as the Federal reserve bank is concerned, it could not begin to take any considerable proportion of cattle paper outstanding in our district on account of our limited lending power.

The CHAIRMAN. You mean the Kansas City Federal Reserve Bank?

Mr. MILLER. The Kansas City Federal Reserve Bank, I mean. On the occasion of Gov. Harding's visit to the tenth Federal reserve district, at which time he addressed the live-stock interests, and preparatory to his visit, we sent out questionnaires to all the banks, except the city banks, to know the amount of their loans, and asked them to classify their loans, to give us the amount that was being used for the purchase of real estate or permanent improvement, the purchase of machinery, carrying of live stock, seeding and planting, and for purposes not specified, etc. We received answers from a number of them, and averaging the answers received to the number of questionnaires mailed, we ascertained that the country banks carried $297,000,000 of cattle loans. We then estimated that the city banks, the cattle loan companies, and the cattle commission companies were carrying at least $200,000,000. Much of that paper may be floated elsewhere, but it is domiciled in our district. That would make $500,000,000 of cattle paper in this district. The normal lending power of our bank, without calling on other Federal reserve banks, is $110,000,000 to $120,000,000.

I will here insert a letter from the governor of the Kansas City Federal Reserve Bank:

FEDERAL RESERVE BANK OF KANSAS CITY,
May 19, 1921.

Hon. W. P. G. HARDING,
Governor Federal Reserve Board, Topeka, Kans.

DEAR GOV. HARDING: Knowing that you will address, while in our district, various agricultural and live-stock organizations, and for the purpose of furnishing you reliable data concerning aid already given to those organizations, we have prepared the accompanying table from replies received to a questionnaire addressed by us to all of the banks of the district, except those located in financial centers.

You will observe that to 4,096 questionnaires mailed, we received 2,116 replies, approximately 50 per cent, covering total loans aggregating approximately $500,000,000; hence, it is fair to assume that the aggregate loans of all the banks addressed would approximate $1,000,000,000 and that the percentage of the several classifications, as shown by the chart or table, would be substantially the same.

Upon this assumption, and doubling the aggregate amount of each classification, we arrive at the following conclusion, in round numbers, as to the aggregate of each class of loans carried by the country banks, State and national, of our district:

Loans to farmers for—	Amount.	Per cent of total loans.
Purchase of real estate or improvements	$139,000,000	8.2
Purchase of machinery and vehicles	73,400,000	7.3
Purchase and carrying of live stock	297,600,000	29.8
Seeding and planting—current season	87,900,000	8.8
Purposes not specified	165,000,000	16.5
Total loans to farmers and stock raisers	762,900,000	76.3
Total loans to other than farmers	237,100,000	23.7
Total loans, approximate	1,000,000,000	100.0

We are also attaching analysis, in even hundreds, of the classification of loans carried by this bank for the first four months of 1921. From this table you will observe that approximately 38 per cent of our total loans are strictly classified as agricultural and live-stock paper, while, as a matter of fact, the proceeds of more than two-thirds of the loans represented by member bank notes secured by Liberty bonds, have been used by the borrowing banks in giving aid to farmers and stock raisers, which, if added to loans classed as strictly agricultural and live stock, would increase the percentage of aid given to such borrowers to approximately 60 per cent of the average loans carried by this bank.

Yours, very truly,

J. Z. Miller, Jr., *Governor.*

Now, with a situation such as most of the local banks and most all of the large banks find themselves in, it would be impossible for the large city banks to take on new customers, even for cattle loans, that come to them in times like these.

Now, the case I have in mind is where a party complains that the local banks in his community are so situated that they can not carry the larger cattle loans, and they have to resort to Kansas City or Chicago. Well, when that borrower comes to Kansas City he finds the city banks just as much loaned up as was his local bank, and very few of the city banks are taking on borrowing accounts now, and especially not from parties that would not be customers and who had had no business relations with them before. I have no doubt, Mr. Chairman, that many of the larger borrowers in the cattle business are finding it rather difficult to refinance themselves, and that was the very purpose of the $50,000,000 cattle pool. It is now available to anybody who will furnish the collateral and make the proper showing.

The Chairman. When you say "anybody" you mean any bank?

Mr. Miller. Well, anybody through their local bank. They must have the assistance of the bank or a cattle loan company. Any cattle loan company can get relief, or any commission house that has loans can get relief.

Representative Ten Eyck. Where do they get that relief from?

Mr. Miller. From what is known as the cattle pool. It is a pool made up among the bankers of the country, of which New York has contributed one-half. It is a $50,000,000 pool, is now being administered in Chicago, and is loaning more or less—I do not know just how it is—but certainly I know they have loaned $6,000,000 or $8,000,000. It just so happens that L. M. McClure, one of our directors of the Kansas City Federal reserve bank is president of the corporation which was formed to administer that pool. They are lending

money to all parts of the country; they are not confined to any district, and are listening to all comers. I know they are lending money in Oregon, and I know they are lending money in Texas, and I believe they have made loans in the States of Ohio and Illinois. So that fund is available to anyone who—or rather, to any bank that is carrying loans on cattle or wish to do so.

The CHAIRMAN. That money would pass through the regular channels of the banks, and if those banks were already extended, they would not be in position to take much of it, would they?

Mr. MILLER. Well, in most cases those loans are outstanding anyway. Very, very few of them—I have no knowledge of any cattleman that wishes to carry through his herds that has not already borrowed on those cattle. And that loan already being in a bank, or with a cattle loan company, is perfectly eligible to be presented to the $50,000,000 pool, and if it measures up to requirements, it will be accepted.

The CHAIRMAN. Does that have to be done with the member bank's indorsement?

Mr. MILLER. They do not pay any attention to the member banks. It is any bank.

The CHAIRMAN. I mean any bank?

Mr. MILLER. They do just as they please. Every case stands on its own merits.

The CHAIRMAN. That is to say, if a cattleman has a loan with a bank in Kansas, the pool will take over that loan without the bank's indorsement?

Mr. MILLER. Well, if they take it from the bank, they would require the bank's indorsement; however, it is not absolutely necessary that the loan should come to the pool through a bank. It may come through a commission firm or a cattle loan company of good standing.

Representative TEN EYCK. If a large cattleman wanted to get a loan now, would he be able to obtain a loan from this pool?

Mr. MILLER. Not directly. He would have to go through either a cattle loan company, a commission house, or a bank. They adopted that method for the reason that this pool desired to make the greatest amount of loans in the quickest time, and having no organization to go out and inspect here, there, and everywhere, they thought if they relieved the banks, cattle loan companies and commission concerns of loans which they were carrying, they, in turn—those banks, cattle-loan companies, and commission concerns—could give further aid, using their own organization.

Representative TEN EYCK. Are those commission men now making loans on cattle?

Mr. MILLER. Yes, sir; no one in our district, so far as I have heard, has any trouble at all to get money with which to buy cattle to feed out, and not to run beyond the six-month period, because those notes are eligible at the Federal reserve bank, and we have now available some $60,000,000 or $70,000,000 just waiting for the member banks to present eligible paper; and there is no paper presented at our office that has a more liberal and generous consideration than cattle paper.

Representative TEN EYCK. Does your reserve bank discount for farmers on farm products owned by the farmers and held by them on the farms?

Mr. MILLER. Well, we would never know that, because the note would be made to the local bank and we would take it from the local bank. But we do not know whether the farmer has his products on his hands or not.

Representative TEN EYCK. In other words, you do not discriminate between paper on products that are actually owned by the farmer and held by him and agricultural paper which covers farm products which are in the regular course of marketing?

Mr. MILLER. No, sir; the notes seldom reveal the situation, and we discount notes of farmers, either on the security that is attached—that is, generally a mortgage on live stock, horses, mules, and cattle—or on the financial statements of the makers.

Representative TEN EYCK. If a farmer had 1,000 bushels of wheat which he owned and was holding it in his own granary, the member bank will loan on it?

Mr. MILLER. Well, that depends; some will and some will not. But we do not inquire.

Representative TEN EYCK. You do not inquire?

Mr. MILLER. No, sir; we do not exercise any authority over how a member bank loans its money. But when a note is presented to us the showing is made that that borrower is entitled to that much credit, and if the showing is made we discount the note. We do not know whether the farmer has wheat on his hands or not. We permit the banker to make a statement as to the financial worth of a farmer when presenting notes up to $500. Above $500 we require a financial statement. If the financial statement is satisfactory we take the note and do not inquire beyond that.

The CHAIRMAN. Well, is that requirement of a financial statement on the part of the farmer, where a loan is asked for of more than $500, one that is practically prohibitive of loans?

Mr. MILLER. No, sir; you would be surprised when I tell you that we reject on account of insufficient security or insolvency less than 2 per cent of the notes sent us by country banks.

The CHAIRMAN. What I am getting at is this: The average country farmer, I imagine, does not keep his books in such shape that he can make a satisfactory financial statement.

Mr. MILLER. Well, they do not make them from books. They make it to their banker, and he puts it in shape some way or other.

The CHAIRMAN. Do you think many of the country banks in loaning to the farmers require them to make financial statements?

Mr. MILLER. A great many of them are doing that now, and the custom is growing. I can see no reason why they should not do it. It very frequently has some good influence on the farmer himself to do that, as it has upon all of us when we make statements occasionally.

Senator CAPPER. During the period of tight money last fall, Mr. Miller, did the board out in your district send out an order to the member banks to require farmers to give a financial statement?

Mr. MILLER. No, sir; we did not; we sent out no such instructions at all during the period of 1920. We permitted member banks to send us notes of farmers without statements up to $1,000 until very recently—this year, I believe; nor did we ever ask any member bank to curtail its loans to farmers or stockmen. We leave that matter entirely with them. We have no supervision over the detail manage-

ment of any bank, and we never suggest. That is a matter for them to decide for themselves.

The CHAIRMAN. The suggestion has frequently been made here that the requirement of a financial statement in every case where the paper presented for rediscount on the part of one borrower was in an amount in excess of $500, practically eliminated from the rediscount privilege the farmer paper.

Mr. MILLER. Well, that is not the case, Mr. Chairman, as shown by our records. Our country member banks have no difficulty at all in borrowing all their basic line, and two or three times, or four times their basic line, on just such paper; and there is no complaint like that from the member banks. It is only a sound business policy to know that the paper which we discount and put up as security for the Federal reserve notes—the circulating medium of this country—it is only a sound principle that we should at least have some reasonable evidence that those notes are solvent. Otherwise the currency of the country would be depreciated just to the extent these notes were insolvent.

The CHAIRMAN. There is another matter which, I think, has been the subject of some criticism of the Federal reserve bank in Kansas City. I do not know that I have it sufficiently clear in my mind so that I can state it even. But as I recall it, it related directly to the marketing of the wool crop of last year.

Mr. MILLER. Yes.

The CHAIRMAN. It being claimed, I think, that a ruling of the directors of the Federal reserve bank of Kansas City was made, the effect of which was to reduce rediscounts of paper secured on wool, except where that wool was actually in transit.

Mr. MILLER. No; the determination of our executive committee was that we would loan on wool either on the bills of lading, or on warehouse receipts. The complaint was not relative to where the wool was, but on the amount that we would advance against the wool. Now, I understand that complaint——

The CHAIRMAN (interposing). I understand that this is what the complaint was about: They tell me that in the ordinary processes of gathering wool and getting it to market there is quite a long period of time. Many of these wool people are at long distances from the market. There is quite a period elapses after the wool is sheared from the sheep, and before it reaches a warehouse where a receipt can be given for it; and that the Federal reserve bank refused to discount paper based on that wool until it had reached that point, the effect of which was practically to prohibit rediscounts of wool paper.

Mr. MILLER. Mr. Chairman, how could we be expected to discount paper on wool before it was concentrated somewhere? Now, certainly not on the ranches; we would not be expected to concentrate wool on the ranches where there is no insurance available, and where there are no warehouses available, except probably the barns. But our proposition was that where the wool was stored and where we were furnished with a warehouse receipt, either a local warehouse receipt, or bill of lading for it in transit, or a Chicago warehouse receipt—we offered to discount on those. But advancing to a woolgrower where the wool may be partly on the sheep's back, would be simply commercial paper, which we dis-

counted by the millions without any wool behind it, just as other commercial paper. We did not require wool. But when we are asked at any time to advance on wool, I think you would all agree that the wool should be somewhere in evidence, or where the ownership of it could be exercised, because that would be essential to the transaction.

I did not hear just what you said. I had not heard of the complaint mentioned by you. We did hear that our offer to advance 15 cents a pound on wool was so much less than the woolgrowers expected to get for their wool that there was a great complaint about that. But after one year of holding, the same wool, we understand, sold for 16 cents.

The CHAIRMAN. I don't know whether there was such a furor in Kansas City, but there was a good deal of furor down here. I think there were delegations who went to the Federal Reserve Board and complained there about it. I assume that those complaints reached the governor and directors of the Federal reserve bank at Kansas City.

Mr. MILLER. We had them all, but, Mr. Chairman, you can see how the complaint as stated by me can not be a fair one, if the wool had not even arrived in the local town where it was first concentrated. Now, we offered to take the warehouse receipt of that, or bill of lading in transit, or the Chicago warehouse receipt. It seems they ship all the wool from the Northwest to Chicago. Now, before it arrived at the station of one of the towns, there is no way to pledge it. They could not insure it, and they could not give a warehouse receipt, because there are no warehouses and no warehousemen. They could not give a mortgage on it because it was probably already mortgaged. You see how unfair that criticism would be to any institution that was lending on collateral; the collateral ought certainly to be placed where ownership could be exercised in case of need.

Senator CAPPER. Mr. Miller, have you reached any conclusion as to a need for a more adequate rural credit system, or intermediate credit system, whereby the farmer and stockman could borrow from one to two years, or longer, if necessary?

Mr. MILLER. Yes; I have thought about that a great deal, Senator Capper. I know the farmer and stockman needs additional facilities, which the Federal reserve bank could not possibly give, unless we depart from the purposes for which the Federal reserve bank was created, and that is short-time credits to move commerce.

But I think there ought to be some amendment to—not the Federal reserve act, but the Federal farm loan act, which would give the the Federal farm loan banks authority to make loans that would necessarily have to run nine months and longer. The Federal farm loan banks are in touch with the farmer and live-stock men. It would be right in line with their present functions, and it has occurred to me—and I think I have written to you—that something like that ought to be done. Certain it is, there must be some additional legislation to give the aid.

Senator CAPPER. You think that could be handled to greater advantage by the farm-loan banks rather than the Federal Reserve Board?

Mr. MILLER. Yes; because the Federal reserve system, as I understand it, was created to handle moving commerce and to furnish seasonal demands and not loans that run over a period of six months.

The Federal reserve system can handle, Senator Capper, every loan against cattle in the feed lot in our district. It is the highest class of paper. It is the acme of eligible paper. And it is given the most favorable and liberal consideration by our executive committee. We do not have to reject one offer in 50 of that kind of paper. But you and I know that there are many cattle producers that need loans, not for nine months but for two years. That is the kind of loan the Federal farm-loan bank ought to make. They are in touch with the farmer; probably have a mortgage on some of his land or might have. Their organizations can be increased to that point where that class of business can be taken care of and not mixed up with the current movement of commercial business.

Senator CAPPER. You would have those loans made by the local banks, of course?

Mr. MILLER. Oh, yes—well, that would depend upon just what amendment there is. But I don't think an amendment to the Federal farm loan act should make the same requirement under which the cattle pool is being conducted. I think the Federal farm-loan bank ought to be able to deal directly with the stock grower or the farmer, because otherwise the same situation would occur with which we are now confronted. The Federal reserve banks can not make a loan, however good, to an individual; that individual must go to some member bank. So with $75,000,000 of lending power in our bank to-day and with a great many borrowers wanting help, we are powerless to aid until a loan gets into the hands of the member bank and is offered by it for rediscount.

I would not encumber the proposed amendment with such a condition. I would permit the Federal farm-loan banks to exercise their discretion in making direct loans, just as such banks now determine the advisability of making loans on land. Their organizations are just as capable, and probably more so, than many of the commercial banks making loans. I favor that. I hope that will come about. It will not only give the farmer and stock raiser the long-time credit they must have, but it will relieve the Federal reserve banks from the unfair criticism to which they are frequently subjected.

The CHAIRMAN. Are you a farmer, Mr. Miller?

Mr. MILLER. Yes; I am a farmer. I have more than 25,000 acres of land in cultivation and 40,000 acres that is given to stock raising. So when it comes to farming and stock raising you may know that I am in the fullest sympathy with those industries, know their needs, and would like to see anything done for them that could reasonably be done.

Senator CAPPER. Do you see any brighter prospects ahead for agricultural industry and stock raising?

Mr. MILLER. Well, I don't know, Senator Capper. It looks like a brighter prospect would not be so much in advanced prices as reduced cost of production.

Representative TEN EYCK. You don't think that the farmer would feel that if he was called upon to go to the Federal farm land bank

to secure his intermediate loan of nine months or a year, and at the same time was required to make his deposits in a national bank, that he was being discriminated against in not being permitted to borrow on his deposits on the turnover of his production from the national bank which held his deposits?

Mr. MILLER. Well, why would a national bank refuse to make a seasonal loan in proportion to his value to that bank as a customer?

Representative TEN EYCK. Of course the question is the extension of a short-time loan from 90 days to 9 months.

Mr. MILLER. I am going on the assumption that the farmer and stock raiser will borrow from the land bank the average amount of money that he will need for this length of time. but at the same time that farmer or stock raiser will have relations with his local bank, whether it is a State bank or national bank, and that State bank or national bank would certainly afford him accommodations commensurate with his balances and his solvency.

Representative TEN EYCK. And will likely be more liable to give him more credit if he wants it than the other bank?

Mr. MILLER. No; not conflicting. He would get from the land bank the long-time money required and from the local bank the seasonal money that he would need; the harvest money, the feeding-time money, etc.

The CHAIRMAN. I understand, Gov. Miller. there has been some criticism of the Kansas City Federal Reserve Bank as to their policy with respect to oil paper.

Mr. MILLER. Yes. We take millions of dollars of oil paper in all of its phases. The paper which we have not been able to take is notes the proceeds of which are to be used for drilling oil wells. In accordance with the Federal Reserve Board's ruling. notes, the proceeds of which have been, or are to be, used for the drilling of oil wells or making any other permanent improvement, even on proven territory, are deemed ineligible. So the——

The CHAIRMAN (interposing). Is that by the regulation of the Kansas City Federal Reserve Bank or the regulation of the Federal Reserve Board?

Mr. MILLER. That is a regulation of the Federal Reserve Board; we are simply carrying out that regulation.

Now, some days ago we had an application from the oil interests of Oklahoma to modify our method of determining the liquidity of a financial statement of oil producers. In the past we have not regarded a well even with a settled production as a "liquid asset," but instead have regarded it as a "fixed asset." The oil interests thought that where a well was flowing. say, 100 barrels a day, we should regard it as a "liquid asset" equal to the value of the well, say, $100,000. Under our interpretation of the act an oil well is a fixed property, property of a permanent nature. and not a liquid commodity. But we finally agreed to add to the liquid assets of the party making the statement the reasonable value of what 90 days' production would amount to. Instead of adding the whole value of the well, say, $100,000, we added $9,000. That would be the "oil run," as they call it, for 90 days.

We thought that was liberal, because, Mr. Chairman, the settled production of an oil well is no better, certainly, than the blocked-out

coal in a coal mine, because you can, at any time, get out the coal. We would not consider the production of a coal mine for 90 days as a liquid asset. We would add it to the statement of the borrower as property, and let it go for solvency, but not liquidity.

Now, the oil men are in Washington to-day to discuss the oil situation with the Federal Reserve Board. Another point that the oil people desired was that we should allow their "stores and supplies" to be regarded as "liquid," instead of "fixed assets." You know every oil producer has on the inventory of his assets "stores and supplies." That would include second-hand ropes, bull wheels, tanks, machinery of various kinds, and cables; some new casings, couplings, and fixtures bought, not for resale, but for planting in wells. We have always regarded these as "fixed assets" and not as "liquid assets," because the producers would not sell their supplies, and probably could not do so to pay a note. We have allowed the full value of these assets in their statements, but in considering statements for liquidity, we expect them to show a fair proportion of quick assets compared with current liabilities.

The application referred to has been before us for about a month or six weeks; prior to that no suggestion or complaint had ever been made, except in respect to notes, the proceeds of which go for drilling. So we agreed, upon being furnished an authoritative statement, to regard 60 per cent of the value of new merchandise, casings, fittings, etc., as "liquid assets" where necessary to make a producer's statement appear liquid.

On the third proposal, in respect to drilling, we referred them to the Federal Reserve Board, and the oil representatives are having a meeting with the board to-day.

I believe, with your permission, I will read you the letter which our executive committee wrote to the committee representing the oil interests; that is, the committee representing the banks making a specialty of oil loans [reading]:

FEDERAL RESERVE BANK OF KANSAS CITY,
August 19, 1921.

Messrs. H. H. ROGERS, ROBT. P. BREWER, F. W. BRYANT,
Committee.

GENTLEMEN: Since the conference held July 23—

That is the first time they ever appealed to us or applied to us in this matter. [Continuing reading:]

GENTLEMEN: Since the conference held July 23 and August 5 with our executive committee by you as representatives of member banks located in the oil-producing territory of our district, specializing in oil paper, consideration has been given to your request for a modification in our present method of analyzing financial statements in respect to determining the amounts of quick and fixed assets, etc.

You are advised that our executive committee has decided to accede to your proposal No. 1, that, when considering the financial statement of an oil producer whose note is offered for discount, a fair and reasonable valuation of 90 days settled production will be considered as quick or liquid assets; whereas it has heretofore been our practice to classify such as fixed assets. It will be necessary, however, for member banks offering notes of an oil producer whose statement to be liquid requires his settled production to be taken into consideration; to have attached banks' written statement certifying as to the amount of settled production with which the liquid assets of the borrower should be credited.

In regard to your proposal No. 2, that a reasonable valuation of the item "stocks, stores," or "inventory" appearing on a financial statement, repre-

senting supplies and material on hand, be regarded as quick or liquid assets, whereas it has heretofore been our practice to classify such as fixed assets, our executive committee has decided that when examining statements of an oil producer for liquidity it will classify 60 per cent of the reasonable value of new material and supplies (excepting machinery) on hand as quick or liquid assets. It will be necessary, however, that authoritative information accompany statements, setting out the quantity, character, and value of such new material and supplies.

The third proposal of your committee, that the Federal Reserve Board should rescind its ruling determining as ineligible a note of an oil producer, the proceeds of which are used for drilling wells or for making permanent improvements, is a question upon which our executive committee or our directors can not pass, but is a question which can only be determined by the Federal Reserve Board at Washington.

Yours, very truly,

MILLER,
RAMSAY,
FLEMING,
Executive Committee.

And they are here to-day for the purpose of having a hearing, beginning at 10 o'clock this morning.

The CHAIRMAN. Now, I understand that the basis of their complaint, in a general way, is that the policy of the Dallas bank is much more liberal than the policy of the Kansas City bank.

Mr. MILLER. That is not the case. The governor of the Federal reserve bank at Dallas was in our office only a few days ago. I have among these papers a letter addressed by the Federal Reserve Board to the Dallas bank, setting out what is and what is not eligible. Our practice has been in accordance with the terms of the Dallas letter. The policy of the Dallas bank is no more liberal than ours. And furthermore, Mr. Chairman, some of the banks making a specialty of oil paper seem to have little or no trouble to furnish the paper necessary to borrow their basic lines, and occasionally several times their basic lines. As to the oil producer: Some have their troubles in getting their loans into the member banks. Much of the criticism, too, of the system, and of the Federal reserve banks, come from individuals with whom the Federal reserve banks could have no direct transactions. And doubtless, some of the member banks, not desiring to take on the credit which is offered, probably say to their customers that the Federal reserve bank does this, or does that, or something else.

The CHAIRMAN. I presume they give as a reason for declining to take some of this oil paper, that under the ruling of the Federal Reserve Board, and the Federal reserve banks, the paper is not eligible for rediscount. Now, from their point of view it does not make any difference whether the bank has sufficient of every kind of collateral to cover their loan or not.

Mr. MILLER. No. But, Mr. Chairman, we never have less than $4,000,000, and at times have had $10,000,000 of oil paper in all of its phases. So we give to the oil interests a very liberal line, compared with others.

Senator CAPPER. During this period of depression has there been any undue request for credit among the oil people?

Mr. MILLER. No, sir; we do not regard it so. But, Senator, with oil at $1 a barrel, as compared with $4 a barrel, one-fourth of the amount carries the same number of barrels of oil. We figured up the

other day and found we had over $4,000,000 of oil loans, which would represent the value of over 4,000,000 barrels of oil if considered in terms of barrels, while last summer it would have taken $16,000,000 to have carried the same amount of oil, as oil was about $4 a barrel then. We have not noticed any particular increase as to the number of borrowers.

Senator CAPPER. Is oil paper as desirable as agricultural paper?

Mr. MILLER. Well, oil men frequently tell us that "we can live without wheat, and can live without meat, but can not run our automobiles without gasoline." I would not say that. My preference, of course, is agricultural paper, because it is in smaller pieces and generally has behind it those dependent on making a living out of the success of the farm, and has to do with the production of those commodities which sustain life.

Senator CAPPER. Does oil paper carry a higher rate?

Mr. MILLER. No, sir; all paper carries the same rate.

The CHAIRMAN. Have you anything further, Senator Capper?

Senator CAPPER. No, sir.

The CHAIRMAN. Have you anything further you would like to say to the commission, Mr. Miller?

Mr. MILLER. No, sir; nothing at all.

The CHAIRMAN. We are very much obliged to you for your statement, and if you wish to do so we would like to have you insert in the record so much of the material that you have brought with you as you think would be useful to us in checking up the situation and in arriving at a conclusion.

Mr. MILLER. Mr. Chairman, with your permission I will insert in the record a resolution from the member banks at Oklahoma City, Okla., under date of April 20, 1921.

Also a resolution of the Kansas City, Mo., and Kansas City, Kans., member banks, under date of June 4, 1921; also a resolution adopted at a meeting of the Lincoln and Omaha bankers, at Omaha, on April 23, 1921.

Also resolution adopted at a meeting of the Wichita banks, members of the Federal reserve system, on April 29, 1921.

Also a resolution adopted at a joint meeting of the Tulsa, Okla., and Muskogee, Okla., banks, members of the Federal reserve system, under date of May 17, 1921.

Also a comparison of the progressive rates with the 7 per cent flat rate.

Also a chart showing the absorption of credit of 1920.

Also a chart showing the distribution of credit for 1920.

Also a chart showing the application of the progressive rate.

Also a chart showing the average rates of discount, 1920–21.

Also a chart showing the rates paid by Kansas City member banks, January to May, 1921.

Also a memorandum showing the total gross deposits and total loans and discounts of banks in the tenth Federal reserve district as disclosed by their reports of conditions June 30, 1921.

The CHAIRMAN. Without objection the papers referred to will be inserted in the record.

(The papers referred to are here printed in full, as follows:)

OKLAHOMA CITY, OKLA., *April 20, 1921.*

THE BOARD OF DIRECTORS,
Federal Reserve Bank of Kansas City:

The undersigned member banks of Oklahoma City, learning that the question of rates of discount will come up for discussion by your board at an early date and that there has been some intimation that a flat rate of 7 per cent might be adopted, hereby protest against the abandonment of the progressive rate discount plan, beleving it to be sound and that for a vast majority of members the progressive rate is more economical or less expensive than would be a flat rate of 7 per cent.

Security National Bank, by Wm. Saymour, vice president; The Tradesmens National Bank, Oklahoma City, Okla., by Frank J. Wekoff, president; The American National Bank of Oklahoma City, Okla., by F. P. Johnson, president; Farmers National Bank, Oklahoma City, Okla., by D. W. Hogan, president; Liberty National Bank, by Geo. L. Browning, president; Oklahoma Stock Yards National Bank, T. P. Martin, Jr., president; The Southwest National Bank, Oklahoma City, Okla., by L. T. Sarnmour, president; First State Bank, F. P. Finerty, president; First National Bank, Oklahoma City, Okla., H. M. Johnson, president.

RESOLUTION OF KANSAS CITY, MO., AND KANSAS CITY, KANS., MEMBER BANKS AT MEETING HELD JUNE 4, 1921.

At a meeting of the member banks of Kansas City, Mo., and Kansas City, Kans., held to-day, a resolution indorsing the soundness of the principle of the progressive rate was adopted and the directors of the Federal reserve bank of Kansas City are requested to continue its application in this district, with a maximum of 2 per cent over the normal rate.

The Commercial National Bank of Kansas City, Kans., P. W. Weibel, president: Commonwealth National Bank, G. M. Smith, chairman; Columbia National Bank, Thornton Cooke, president; First National Bank of Kansas City, Mo., by H. T. Abernathy; Commerce Trust Company, by W. F. Kemper, chairman of board; Continental National Bank, Kansas City, Mo., J. F. Meade, president; Gate City Natinal Bank, Kansas City, Mo., by W. B. Plank, president; Central Exchange National Bank, Kansas City, Mo., by C. R. Burrell, president; New England National Bank, by J. F. Downing, president; Traders National Bank, by J. R. Dominick, president; The Midwest Reserve Trust Co., by T. F. Langheim, president; Drovers National Bank, by H. L. Jarboe, president; Stockyards National Bank, Chas. E. Waite, president.

RESOLUTION ADOPTED UNANIMOUSLY BY A MEETING OF LINCOLN AND OMAHA BANKERS AT OMAHA, APRIL 23, 1921.

"*Resolved*, That the undersigned banks of Lincoln and Omaha, members of the Federal reserve system, express their preference for a continuation of the progressive rate discount plan instead of a flat 7 per cent rate, believing the progressive rate plan is sound, and we therefore protest against its discontinuance."

First Nationak Bank, Omaha, by F. H. Davies, president; Central National Bank, Lincoln, P. L. Hall, president; United States National Bank, Omaha, John L. Kennedy, president; National Bank of Commerce, Lincoln, Carl Weil, vice president; Live Stock National Bank, Omaha, S. M. Ford, president; Corn Exchange National Bank, Omaha, T. R. Cranning, president; Merchants National Bank, Omaha, F. P. Hamilton, president; Stock Yards National Bank, Omaha, D. O. Hovey, president; First National Bank, Lincoln, H. S. Freeman, vice president; Nebraska National Bank, Omaha, F. W. Clarke, president; Packers National Bank, Omaha, J. F. Coad, president; Peters National Bank, Omaha, by M. D. Cameron, president; Omaha National Bank, Omaha, by Walter W. O'Hee, president; City National Bank, Lincoln, by L. B. Howeye, chairman.

* * * * * * *

That, whereas, our attention having been called to an important session of the clearing house associations of both Omaha and Lincoln, at which the governor and perhaps other officers of the Federal reserve bank of Kansas City are to be present for the purpose of considering business of importance and perhaps the changing of the present graduated interest rate on rediscounts to a flat interest rate of 7 per cent: Therefore be it

Resolved, That we are opposed to such a change and recommend that the graduated rate on rediscounts be not discontinued but remain as at present.

RESOLUTION ADOPTED UNANIMOUSLY AT A MEETING APRIL 29, 1921, OF ALL WICHITA BANKS, MEMBERS OF THE FEDERAL RESERVE SYSTEM.

Resolved, That the undersigned banks of Wichita, members of the Federal reserve system, express their preference for a continuation of the progressive rate discount plan, with a basic rate of not more than 6 per cent instead of a flat rate of 7 per cent. We believe the progressive rate is sound, and we are therefore in favor of the progressive rate plan, the basic rate to be governed by general financial conditions.

Fourth National Bank, by Dan. F. Callahan, president; Southwest State Bank, by S. Naftzyer, president; State Savings & Mercantile Bank, by Geo. H. Hamilton; First National Bank in Wichita, by C. W. Carey, president; Union National Bank, by W. B. Harrison, president; Union Stock Yards National Bank, by Ed. L. Hart, jr.

RESOLUTION ADOPTED AT JOINT MEETING OF TULSA AND MUSKOGEE, OKLA., BANKS, WHICH ARE MEMBERS OF FEDERAL RESERVE SYSTEM.

At a joint meeting of the Muskogee and Tulsa members of the Federal Reserve Bank of Kansas City, held at Tulsa, Okla., May 17, 1921, the following resolution was unanimously adopted:

Resolved, That the progressive discount rate plan, as applied by the Federal Reserve Bank of Kansas City, being sound in principle and encouraging a better distribution of credit, we, the member banks of Muskogee and Tulsa, Okla., protest against the discontinuation of its application by the Federal Reserve Bank of Kansas City, regardless of normal rate.

The First National Bank of Tulsa, by A. W. Hurley, vice president; the Exchange National Bank, Tulsa, Okla., J. W. A. Easton, vice president; the Liberty National Bank, Tulsa, Okla., by W. L. Lewis; Central National Bank, Tulsa, Okla., J. W. Biny, vice president; National Bank of Commerce, by J. H. McBirney, president; the Exchange National Bank, Muskogee, Okla., by M. Board, president; the First National Bank of Muskogee, H. H. Ogden, president; the Commercial National Bank, Muskogee, Okla., E. D. Sweeney, vice president; Muskogee National Bank, Muskogee, Okla., L. C. Parmenter, vice president.

[Paper secured by Government issues omitted.]

	Transactions— At progressive rates.	Transactions— At normal rates.	Transactions— Total.	Interest cost same volume at 7 per cent.	Difference favoring progressive-rate plan. Direct.	Difference favoring progressive-rate plan. Indirect (one-half of 1 per cent on paper secured by United States bonds). Loans.	Difference favoring progressive-rate plan. Indirect (one-half of 1 per cent on paper secured by United States bonds). Collateral.	Difference favoring progressive-rate plan. Total.	Liability to extend further credit. Excess borrowers.	Liability to extend further credit. Normal borrowers. Number.	Liability to extend further credit. Normal borrowers. Unused credit.	Liability to extend further credit. Nonborrowers. Number.	Liability to extend further credit. Nonborrowers. Unused credit.
April (12 days):													
Daily average loans	$63,327,210.51	$18,226,494.45	$81,553,704.96										
Monthly interest cost	$130,307.64	$35,953.56	$166,261.20	$187,685.24	$21,424.04	$5,313.32	$32,322,690.71	$26,737.36	171	236	$25,263,230.00	649	$48,898,935.00
Rate per cent	6.25	6.00	6.20										
May:													
Daily average loans	$60,693,969.00	$17,377,276.57	$78,071,245.57										
Monthly interest cost	$338,944.70	$88,552.74	$427,497.44	464,149.60	36,652.16	14,948.40	35,201,077.16	51,600.56	214	270	23,111,283.00	573	48,728,279.00
Rate per cent	6.57	6.00	6.44										
June:													
Daily average loans	$57,057,688.82	$18,968,648.61	$76,026,337.43										
Monthly interest cost	$309,485.70	$93,453.90	$403,029.60	437,411.80	34,382.20	15,371.22	37,403,303.24	49,753.42	251	268	20,652,041.00	536	47,894,870.00
Rate per cent	6.59	6.00	6.44										
July:													
Daily average loans	$60,936,224.44	$18,420,691.64	$79,356,916.08										
Monthly interest cost	$350,570.63	$93,869.86	$444,440.49	471,793.17	27,352.68	16,274.90	38,324,766.62	43,627.58	292	264	22,788,437.00	509	38,548,454.00
Rate per cent	6.77	6.00	6.59										
August:													
Daily average loans	$61,745,580.46	$18,479,322.81	$80,224,903.27										
Monthly interest cost	$350,589.23	$94,168.70	$444,757.93	476,953.54	32,195.61	17,064.44	40,184,001.59	49,260.05	321	241	21,829,402.00	516	39,775,926.00
Rate per cent	6.68	6.00	6.52										
September:													
Daily average loans	$69,336,595.19	$19,017,700.99	$88,354,296.18										
Monthly interest cost	$383,573.10	$93,786.00	$477,359.10	508,339.79	30,980.69	[1] 16,310.87	44,099,762.36	47,291.56	346	263	18,740,940.00	471	35,451,518.00
Rate per cent	6.73	6.00	6.57										
October:													
Daily average loans	$83,061,320.43	$18,935,439.07	$101,996,759.50										
Monthly interest cost	$485,085.83	$96,492.77	$581,578.60	606,391.69	24,813.09			24,813.09	391	276	17,031,109.00	415	30,674,461.00
Rate per cent	6.87	6.00	6.71										
November:													
Daily average loans	$88,059,929.37	$16,574,071.10	$104,634,000.47										
Monthly interest cost	$505,679.70	$81,735.30	$587,415.00	602,003.82	14,588.82			14,588.82	389	307	16,808,955.00	390	32,758,389.00
Rate per cent	6.98	6.00	6.83										
Dcember:													
Daily average loans	$86,429,676.64	$11,601,949.62	$98,031,626.26										
Monthly interest cost	$505,463.99	$59,121.96	$564,585.95	582,818.29	18,232.34			18,232.34	399	324	19,757,375.00	364	31,543,023.00
Rate per cent	6.88	6.00	6.78										
Entire period (Apr. 19—Dec. 31):													
Daily average loans	$70,554,174.43	$17,450,527.73	$88,004,702.15										
Total interest cost	$3,359,700.52	$737,224.79	$4,096,925.31	4,337,546.94	240,621.63	85,283.15	38,430,062.81	325,904.78					[2] 60,028,503.00
Rate per cent	6.76	6.00	6.61										

[1] 27 days only: 6 per cent rate on Liberty bond paper effective Sept. 28, 1920.

[2] Average unused credit.

Application of progressive rate, First National Bank, Blankville, Kans., basic line for July, 1921, $100,000.

Date.	Total liability.	6 per cent.	7 per cent.	8 per cent.
July 1	$95,000	$95,000		
July 2	105,000	100,000	$5,000	
July 3	105,000	100,000	5,000	
July 4	105,000	100,000	5,000	
July 5	150,000	100,000	50,000	
July 6	208,000	100,000	100,000	$8,000
July 7	275,000	100,000	100,000	75,000
July 8	119,000	100,000	19,000	
July 9	89,000	89,000		
July 29	450,000	100,000	100,000	250,000
July 30	324,000	100,000	100,000	124,000
July 31	324,000	100,000	100,000	124,000
Total	7,600,000	2,245,000	1,890,000	3,465,000

All loans secured by Government issues carried at normal or 6 per cent rate.

Rates paid by Kansas City member banks, January to May, 1921.

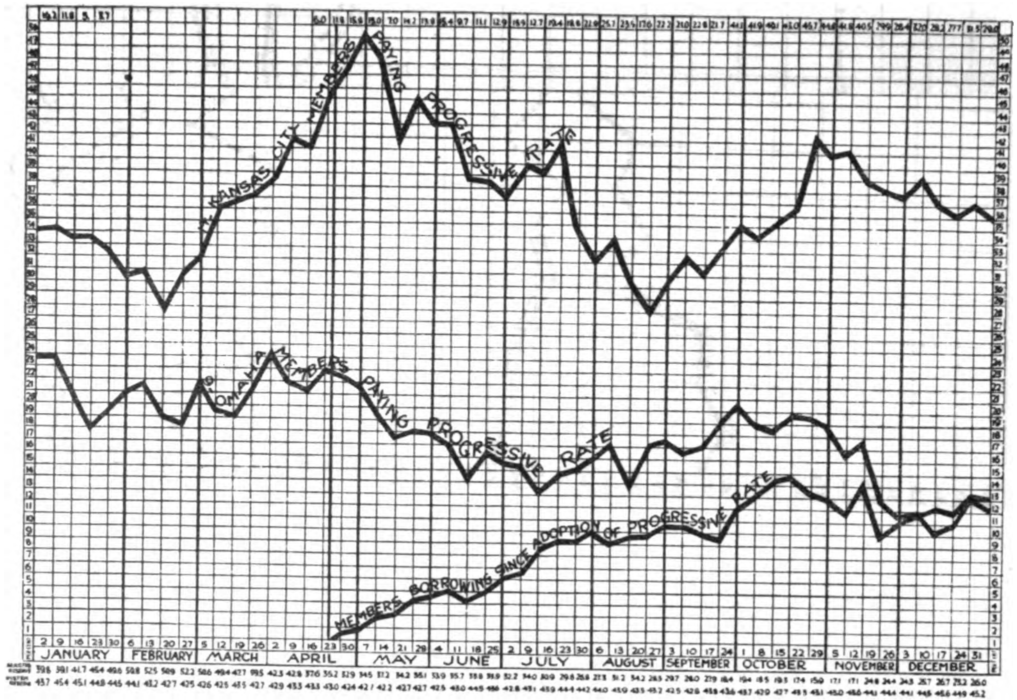
Month.	Exceeding basic lines.				Within basic lines at normal rates.	Normal and progressive combined.			
	At normal rates.	At super rates.	Total borrowings.	Average rate on total.		At normal rates.	At super rates.	Total borrowings.	Average rate on total.
January	$21,206,524	$14,738,746	$35,945,270	6.75	$3,751,981	$24,958,505	$14,738,746	$39,697,251	6.696
February	16,173,984	8,513,461	24,690,445	6.39	5,618,766	21,795,750	8,513,461	30,309,211	6.363
March	15,300,347	8,106,301	23,406,648	6.19	7,859,432	23,159,779	8,106,301	31,266,080	6.296
April	21,172,160	5,805,781	26,977,941	6.23	3,962,560	25,134,720	5,805,781	30,940,501	6.177
May	13,595,511	4,109,511	17,705,022	6.21	7,572,198	21,167,709	4,109,511	25,277,220	6.155
Monthly average	17,490,305	8,254,760	25,745,065	6.45	5,752,967	23,243,292	8,254,760	31,498,052	6.357

Total gross deposits and total loans and discounts of banks in the tenth Federal reserve district, as disclosed by their reports of condition June 30, 1921.

	National banks.	State banks.	Total.
Gross deposits:			
Colorado	$174,940,100	$91,142,978	$266,083,078
Kansas	165,643,888	266,781,225	432,425,113
Missouri	153,270,743	96,639,544	249,910,287
Nebraska	175,237,361	241,808,202	417,045,563
New Mexico	8,437,780	5,809,452	14,247,232
Oklahoma	218,371,678	145,868,850	364,240,528
Wyoming	47,082,031	22,604,443	69,686,474
Total	942,983,581	870,654,694	1,813,638,275
Loans and discounts:			
Colorado	129,992,273	68,053,245	198,045,518
Kansas	136,884,146	241,857,066	378,741,212
Missouri	131,493,602	66,475,559	197,969,161
Nebraska	160,862,907	228,348,009	389,210,916
New Mexico	8,088,462	6,402,493	14,490,955
Oklahoma	182,803,872	112,738,387	295,542,259
Wyoming	40,306,724	21,856,800	62,163,524
Total	790,431,986	745,731,559	1,536,163,545

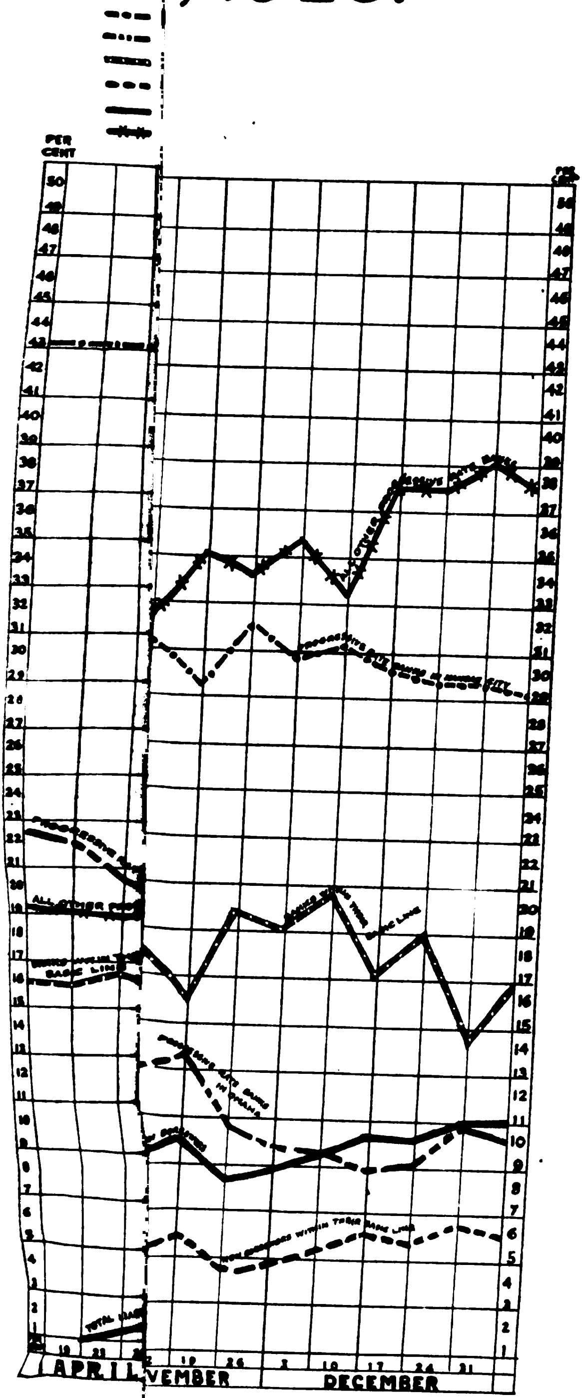
The CHAIRMAN. I have received a letter from Mr. Edward C. Stokes, president of the Mechanics National Bank, of Trenton, N. J., making some suggestions in regard to the Federal reserve system,

ABSORPTION OF CREDIT 1920



NOTE.—The percentage brackets on the chart entitled "Absorption of Credit for 1920" refer to the normal lending power of this bank, while on the chart entitled "Distribution of Credit" (following this paragraph) the percentage brackets refer to aggregate loans actually made which, besides our normal lending power, include the funds borrowed from other members.

, 1920.



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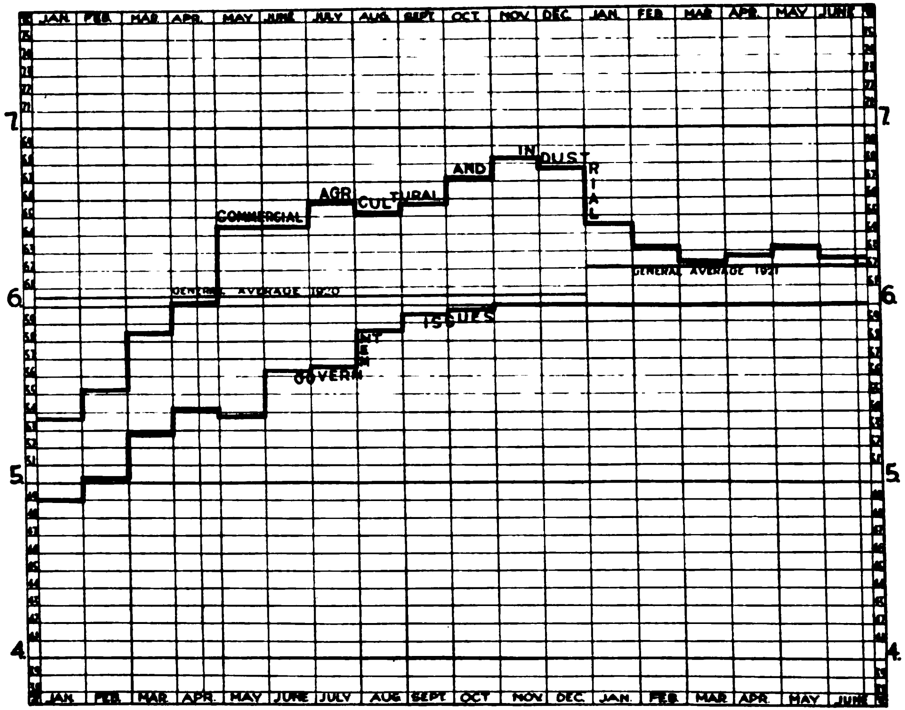
AVERAGE RATES OF DISCOUNT 1920-1921

FEDERAL RESERVE BANK OF KANSAS CITY



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which it is desired to have incorporated in the record. It will be inserted at this point, and is as follows:

THE MECHANICS NATIONAL BANK OF TRENTON,
Trenton, N. J., August 10, 1921.

Hon. SYDNEY ANDERSON, *Chairman,*
Joint Commission of Agricultural Inquiry,
Washington, D. C.

MY DEAR MR. CHAIRMAN: As a country banker may I submit some suggestions in regard to the present Federal reserve system?

When this system was organized its advocates made the following claims:

1. It would mobilize and make credit easily obtainable and available at all times.
2. It would put an end for all time to high interest rates which heretofore had prevailed, especially in New York.
3. To quote the words of President Wilson, "It would make the country panic proof."

None of these promises have been fulfilled. Since the inauguration of the system of credit has been more difficult to obtain than ever in my experience as a banker. Interest rates have ruled higher on the average, over a longer period than I have ever known and men of business experience are ready to testify that never in their experience of 35 or 40 years have they realized such distressing conditions. The Federal reserve system, therefore, has not come up to expectations. It is easy, however, to criticize. It is unfair to do so without offering a constructive remedy. I suggest:

(*a*) The progressive rate privilege of the Federal reserve board should be abolished and the law granting it repealed at once. This law is unmoral. The Government of the United States should set an example to its citizens. There is no reason why the Government should be permitted to practice usury while individuals are not. Such an act as the progressive rate, which is simply an act permitting usury, is a very unfortunate practice for the Government. It is an invitation to law breaking and its moral effect is detrimental. If the Federal reserve bank can charge 7, 8, 9, 10, or 15 per cent, in spite of State laws to the contrary, the individual thinks he has a right to do the same and no refinement of logic will convince him otherwise.

This act should be repealed. Moreover, the rediscount rate should always be lower than the legal rate in the State. The Federal reserve banks, if for any purpose whatever, ought to enable the member banks to borrow money without loss in order to accommodate their customers. That was the hope held out to the American people when the system inaugurated. They were told distinctly on the stump and in congressional debates, that hereafter the banks would have no excuse to say they had no credit or no money to loan. If they were short of funds they were to borrow of the Federal reserve banks, to loan to their patrons.

The excuse for the progressive rate, that rates must be made high to check inflated credits or overextension in business, is unstatesmanlike and unworthy of consideration. One might just as well say that the evil of overeating should be corrected by raising the price of food instead of observing hygenic laws. The way to restrict credit is not to burden the business of the country by high interest rates. That method punishes the great multitude of conservative business men in order to restrict the few. The way to curtail credit is to refuse credit and credit can be refused when the rate is 4 per cent just as readily as when the rate is 10 per cent.

One illustration, although it is not a part of the argument of the evil of raising these rediscount rates, might be cited in connection with Liberty bonds. These bonds were purchased as a matter of patriotism by many who could not afford it. They were told, and I can give you quotations, that these bonds were as good as an American dollar—indeed better than the American dollars because the American dollar did not bear interest. (Secretary of the Treasury McAdoo's Cooper Union speech.) They were told that they could go to the banks and borrow at a rate of interest that would enable them to carry their bonds without loss. That was a governmental pledge and promise to the people of the country; according to all ethical rules it should have been kept.

When the Federal reserve banks raised their rediscount rates on loans secured by Liberty bonds or Victory bonds they broke the Government pledge and were guilty of a breach of faith to the patriotic citizens of America. This action broke the price of bonds, and it caused a loss to the patriotic people

of this country of two to three billions of dollars. When President Harding, in his acceptance speech, spoke of this fact and said that every effort should be made to restore these bonds to par, the enthusiastic outburst on the part of the audience exceeded in intensity any response given to any other of his many utterances. No Government can afford to deal unfairly with its citizens. Banking institutions should set a high example of ethics and fair dealing. Moreover, the high interest rates imposed by the Federal reserve bank compelled the Government to pay on short-term certificates an unnecessarily high rate of interest at a time when the Government is short of funds, the Government banks raising the rate of interest on the Government taxes when the Government needs to save every penny. What could be more absurd?

(*b*) In connection with the high interest rates it is manifest that the Federal reserve banks were not established for the purpose of making money. With them profit is merely a collateral incident. On the contrary, they have become enormous profiteers. Some of them report earnings as high as 212 per cent on their stock. If a country banking institution would do this, it would be subject to the severest criticism and unpopularity. The Federal reserve banks have secured these enormous profits by charging excessive rediscount rates and by levying this terrific burden on the business and industries of the country. It is true they only secure a part of the income from the high interest rates, but in order to do that business all over the country has to pay these rates, and this extra burden is enormous and acts as a handicap to business prosperity. The principle of moderate earnings is well established by the rate allowed member bank stockholders, namely, 6 per cent. There is no justification for making 212. Senator Owen some time ago wrote a letter to the Federal Reserve Board concerning this phase of the situation and deploring the practice. As I remember it, he figures that with a 4 per cent discount rate they could make something like 60 to 80 per cent on their stock. This would seem to be a fair return.

(*c*) The Federal reserve banks should pay interest on their deposits to the member banks. It was never intended by Congress that the Federal reserve banks should profit at the expense of the member banks. They were to be helpful to the latter and not make them a source of revenue. The Federal reserve bank can readily afford to pay interest on the deposits of the member banks, and in fairness to the latter should do so. This is especially true that in view of the fact that the deposit by the member banks kept in the Federal reserve banks are rigid. That is, they can not be used without the member banks being penalized. The member bank must always keep there the average amount required by law and never can draw on it for emergency purposes without penalty. Our institution, for example, is required to keep about $900,000, on which we pay interest to our depositors but are allowed no interest by the reserve bank. This is manifestly unfair. There is no reason why the Federal reserve banks should hold our money without interest.

With best wishes, I am,

Very sincerely, yours,

E. C. STOKES, *President*.

The CHAIRMAN. The commission will stand on recess until 2.30 this afternoon.

(Whereupon, at 1 o'clock and 25 minutes p. m., the commission stood on recess until 2 o'clock and 30 minutes p. m. of the same day.)

AFTER RECESS.

The commission resumed its session at 2.30 o'clock p. m., pursuant to the taking of recess.

STATEMENT OF MR. WILLIAM H. INGERSOLL, NEW YORK CITY.

Mr. INGERSOLL. Mr. Chairman, I hope you will stimulate me with questions when I get on ground that interests you, because I am just going to give in a sort of narrative way the approach that I made to the question of distribution. When I say "distribution" I am thinking of how goods are gotten from producer to user, the various

problems that arise, and the influences that enter into why one thing is taken instead of another, why people's money goes into certain classes of goods, and the question of the middleman and his elimination, and how we ought to regard the question of lowering the cost of living without lowering wages, which, I think, is the great desideratum, and to which, I believe, an inquiry of this sort can be made to lead. That is, I verily believe that we can lower the cost of things to the users without lowering the earnings of the wage earners.

For some 18 years my work was that of finding a market for the Ingersoll watches. Along about 1912, together with some other manufacturers, we became conscious that there were problems ahead of us that no one had an answer to and that had a great deal of bearing upon our future—for example, the question of business policy, as to whether we ought to adjust ourselves to sell merchandise through the mail-order houses, which had then begun to take on their immense proportions. They were big and had been growing; but at that time it dawned on the business community that they were towering giants in the business field and that they were still growing, and the multitude of small retailers became somewhat nervous about their own future, as to whether all the retail business was going to be done by a few catalogue houses and a few systems of chain stores and by the department stores.

The demands that were made upon manufacturers for discounts and concessions by these immense distributors forced upon us the necessity of ascertaining to our satisfaction what the future system of distribution was going to be and whether we ought to adjust ourselves to the demands that the big ones were making or whether we ought to rely upon the small distributor as the main outlet for our merchandise in the future.

The CHAIRMAN. Generally speaking, does the large mail-order house get a better discount? Does it have an advantage in discounts through quantity purchases that are very considerable?

Mr. INGERSOLL. Very; yes. I should say it averages something better than 20 per cent over the average retail merchant.

The CHAIRMAN. Is that due to better buying ability or is it due to larger-quantity buying and better discounts and advantages of that sort?

Mr. INGERSOLL. It is mainly due to the quantities purchased. Of course, it is due also to the business ability of the men behind those organizations and to the lack of initiative of many manufacturers in finding their own markets. Many manufacturers want to do nothing but make goods; they do not want the burden of finding the customers for the things after they are made, and anybody who will come along with a fat order can wring from them almost anything, according to the stress or needs that the man may happen to be suffering under for the moment.

The CHAIRMAN. It is rather customary, I think, for mail-order houses to take the entire output of factories. I have heard it claimed—I do not know whether it is true or not—that having absorbed the entire output of the factory and consequently destroyed the outside business of the concern, it becomes a very easy matter for that mail-order house to dominate the manufacturer.

Mr. INGERSOLL. That has happened in some instances, and, as in many other departments of business, I think there was a time when they were not entirely ethical in the way they treated their sources of supply in such respects as the one you have mentioned. But I think that, just as some of our trusts and monopolies have become ethical in recent years, the practices that you refer to have probably disappeared.

Now, to take up the thread of what I was saying: A small group of noncompetitive manufacturers formed a little informal association, with the idea that their future business policies would have to be adjusted to whatever prospect seemed to be the one predestined to survive—that is, if we were going to have to sell mainly through chain stores and that sort of thing one line of action was indicated. and if we were going to have a multitude of small accounts another policy was indicated.

After canvassing the subject and finding that none of us had any very coherent idea or any well-grounded body of knowledge to guide us, we concluded that we would have to go into the question of the ability to serve and the most truly economic factors in distribution, and if we found that the public interest was going to be served by the small distributor we would adopt business policies consistent with that expectation; otherwise, the contrary.

In the course of this sort of research we were compelled to take cognizance of the claims, also, for the elimination of the middleman in various forms—the question of the cooperative store, the consumer-owned store. and at the other extreme, the manufacturer-owned store. We found that as we approached the subject there was a tremendous density of ignorance on our own part and on the part of everyone else that we could find. There was on the part of those who were advocating these cooperative stores and the union-owned store, and all of that, an assumption that goods sold themselves, that all they needed to do to work vast economies was to own the store and that great savings, which were assumed to be made by the distributor, would then flow to the consumer. And it was assumed that advertising was a waste entirely. The Socialists point of view is, of course, that all competitive effort, advertising, among other things, is a waste.

We met those questions, and also the claims of the department store that they eliminated the jobber and were therefore in a position to make savings, and hence were entitled to lower prices. We met the claims of the large chain-store systems for lower prices, based upon quantity purchases, and the claims of the mail-order houses.

I think it ought to be pointed out that the parties interested in the early part of this research were of one general class; that is, they were all manufacturers of merchandise which could be duplicated in almost endless quantity, such things as razors, fountain pens, watches, musical instruments, phonographs, underwear, hosiery, automobile tires—things generally which were trade-marked or which bore a proprietary name. We had a number of food products, such things as breakfast foods, canned soups, baked beans, and that sort of thing. It soon came to us in our research that it was only that class of producer (the maker of branded goods) who was maintaining any consistent effort to sell his product. All the other products

on the market, which go out without any name or brand or any particular responsibility of origin back of them, are left to find their own way to the consumer; and it was that class of merchandise which the cooperative enthusiast had in mind mainly. That is, he was concerned with the things which people go and buy because they need them and have to have them and can not do without, and want to get as cheaply as possible.

The CHAIRMAN. Have you any idea what proportion of the goods that are sold over the counter are of the latter character? Is it a very large proportion?

Mr. INGERSOLL. You mean the nondescript commodities?

The CHAIRMAN. Yes.

Mr. INGERSOLL. Yes; they are in the preponderance. I can not tell you the percentages. I think the percentages vary in different lines, but I should say that considerably more than half of the total merchandise moving across counters is unidentified merchandise. It consists of such things as potatoes, cotton by the yard, and merchandise of that kind, which is not bought on the name of the producer.

The CHAIRMAN. Did you consider the question of the larger amount of capital required by the one than by the other?

Mr. INGERSOLL. To do a given volume of business?

The CHAIRMAN. Yes.

Mr. INGERSOLL. Yes, sir. That comes under increased efficiency. A man who can do a larger business on a fixed capital is more efficient. For instance, in London—I have been to Europe making some inquiry on this subject, particularly in regard to the cooperative idea. In London our American friend Selfridge does a business equal to that of Harrod's, the largest store there, in volume of sales, and he does it on half the investment, which is a very marked accomplishment. We most certainly look upon that as one of the prime factors in the cost of distribution—the relation between investment and turnover.

Now, the distinction between the ordinary manufacturers' problem and the distribution of agricultural products is, first, that the agricultural product has to be collected and assembled before it can again be divided and distributed among members. You have to combine the products of a great many farms to get enough to make a distributing problem. But the grocery store or the produce store is not different, after the products have been assembled, from any other line of merchandise, so far as I can find out, save that there is a speculative element which enters into farm products that does not enter into the kind of merchandise that the factories have to do with.

The CHAIRMAN. What do you mean by the speculative element? Do you mean the price fluctuations that are so prevalent with respect to agricultural products?

Mr. INGERSOLL. Yes. I sometimes am unable to make up my own mind whether the price fluctuations cause the speculation or are the result of the speculation. Sometimes it is the one and sometimes it is the other. But on account of the perishable nature of a good many food products, in the process of assembling them, there is a good deal of speculation, there is a good deal of chance taken by the man who undertakes to get produce to market.

The CHAIRMAN. And, of course, there is not the possibility of adjusting the supply to the market that there is in the manufacturing business.

Mr. INGERSOLL. That is right.

The CHAIRMAN. That is the biggest difficulty.

Mr. INGERSOLL. Yes. Apart from that, I think that after the goods are assembled the problem of distribution is about the same in all classes of merchandise that I have had the opportunity to examine into.

We find that, as applied to proprietary articles, there are four elements which we regard now, after our study, as irreducible. That is, we have the producer, or factory, we have a wholesale distributor, known commonly as a jobber; we have a retail distributor, and we have the consumer. Two of those are principals and two of them are agents. The producer is certainly a principal, and the consumer is certainly a principal. The wholesaler and retailer are agents of either the producer or the consumer.

This may be too elementary to interest you, but I have a little chart here, this [indicating] representing a factory; these large squares the wholesale centers, these circles the small communities around the jobbing points, and the dots individual families. The X's represent what might be called crossroads country general stores.

We do not believe that it is possible to eliminate either the wholesaler or the retailer, in principle, and that is one of the points of departure from a great deal of what we believe to be superficial thinking that has been done on the subject. We generally start out with the object of eliminating somebody.

We find that if you take the manufacturer—take the manufacturers who set up their own stores—they claim that they sell direct to the consumer. But what do we find, as a matter of fact? In the first place, they set up retail stores. They have not eliminated retail stores, therefore, because, on the contrary, they have established their own. We find also that where they have any considerable number of retail stores scattered over any large area they have to have intermediate distributing and assembling points where they carry reserve stocks for these stores, which is nothing but a substitute jobber. The fact that they are owned by one concern does not affect the principle of the thing, because our first test was to find out whether any unnecessary labor was being saved by any of these devices. When you look at the stores owned by manufacturers you will find that instead of having eliminated anything, they have simply paralleled the existing system. No labor has been saved, no motions have been saved, no bookkeeping has been saved. No shipping, packing, unpacking, or other labor has been saved. The only difference is that instead of having an independent man as the owner of the wholesale warerooms and an independent man as the owner of the retail store in the local community you have an absentee ownership represented by a hired manager taking the place of the ordinary wholesaler and retailer.

The CHAIRMAN. And, on the other side, they are limited in their volume to the people who want the same kind of product?

Mr. INGERSOLL. Yes; that is true. I said a few moments ago that the middleman is an agent of either the producer or consumer. In this case the wholesaler and the retailer become agents of the pro-

ducer. Now, that producer may be a very broad-visioned man and serve only the interests of the consumer, and his whole policy extending throughout the whole organization conceivably could serve the interests of the consumer. But it is almost inevitable that the independent retailer and the independent wholesaler act as agents for the consumer and bargain with the producer as agents for the man on the other side. The local merchant almost always takes the point of view of his community and is in reality the buying agent for a group of people in his neighborhood who have confidence in him, in his integrity, and in his ability in his specialized line of business, and deputize him to act in their interests, so far as shoes are concerned, to take one line, or drugs in another line, or hardware in another line, and so on, while they themselves go on and specialize in some line of effort of their own, be they farmers, teachers, or policemen, or whatever they may be.

The department store comes along and says, "We have eliminated the jobber; we want to buy direct from the manufacturer; we want the jobber's price." And they usually get it.

But the result has been that those manufacturers who depend mainly upon department stores for their outlet are compelled to set up local wholesale warerooms to supply the department stores, because the department store will not buy sufficiently in advance, will not carry the necessary quantity of stock, and will not so adjust its purchases as to take care of what is known as the fill-in order. That is, after the initial order for a season has been placed and they run out of special numbers of special styles, the little supplies that they need to keep up their departments, the manufacturer, running only a factory, is in no position to meet their needs; and therefore those manufacturers who specialize in department-store trade in most of the important lines of business have been compelled to establish their own wholesale warerooms to take the place of the jobber that the department store says it has eliminated.

So we find that the attempt to eliminate the middleman has succeeded only in name; it has not succeeded in fact, because there is no elimination of motion or investment; there is no cutting down of the time in which the goods move from production to use.

Then take the chain stores: I think this is important to have before us, for the reason that those who have not minutely gone into the thing assume that a lot of elimination has taken place when there has merely been a change in ownership without effecting any inherent economies; and it shows, as I shall try to bring out, no results later on in the cost of doing business.

Now, the department store is an assembly of many different kinds of stores under one roof, so to speak. The chain store is a different thing; it is a projection under many roofs of stores in the same line of business. We have chains of candy stores, drug stores, cigar stores, shoe stores, and so on.

When the chain stores started they wanted to buy direct from the manufacturers, and they wanted to get the jobber's price, and they really did. The chain store, however, if it really does anything that entitles it to a concession in price, has to have its own wholesale warehouses, and they all have them. I have very clearly in mind a system of drug stores with which I am quite well acquainted.

In the early days they were able to put it over on the manufacturers, as it were. That is, they would come along and give us an order for 50,000 watches and get a very low price, and then ask us to ship them out in orders of three watches and six watches to the individual stores. It was some time before we discovered that we were not making money on that transaction.

The CHAIRMAN. You discovered you were doing a retail business?

Mr. INGERSOLL. Yes. We were, at very high expense, and giving very low price. That was very common in the early days, and it is practiced to a considerable extent still. But that has also been substantially eliminated, and those chain stores have set up their own warehouses. You will find that the same concern has a warehouse in New York, from which it supplies those stores that are in New York City and northern New Jersey and up the State and so on. It has another in each of the large centers of the territory it covers.

Therefore, this effort to eliminate is an illusion. It is a substitution of common ownership over several factors which their own experience proves almost conclusively to be the irreducible minimum. They must have the production, they must have the wholesale handling, and they must have the retail handling before the stuff can get to the customer.

There is another explanation of that which, if time permits, I would like to come back to. I refer, for example, to the mail-order house and its problem of long deliveries of small lots, as against having community purchases go out in carload lots, then to be split up after the case lot has come into the neighborhood.

One of the very largest and most notable of these movements to eliminate the middleman has come about in Europe. I am not intimately acquainted with the movement in Russia, but I have made some examination of the movement in Denmark, in Germany, in Switzerland, and in England and Scotland; more particularly in England and Scotland, because the conditions there are very much more similar to ours than those in any other country.

The cooperative movement has shown very great strength in Great Britain. There are said to be more than 10,000,000 members of cooperative societies. In Scotland alone, which you have in mind as a little country of 4,000,000 population, the Scottish Wholesale Cooperative Society did a business in 1919 of the equivalent of about $248,000,000 which means that in that small country they did a business greater than that of the Sears-Roebuck mail order business in this country.

They claim, of course, to eliminate expense and to give bigger values to the consumer members. They have what I regard as an almost superstitious hold on the communities there. As a matter of fact, they have eliminated nothing.

Those societies are constituted in this form. In a local community a man, usually a union-labor leader, is the promoter of a scheme to collect 1 pound or 2 pounds, the equivalent of $5 or $10, from as many members of the union as possible, to set up one of these cooperative stores, the prospect being that those union families will then be able to buy their necessities at a very much lower cost than they are having to pay through the existing stores.

Then they establish the store. Often some union official takes the management of it, although it is not necessarily a union proposi-

tion; sometimes it is union sponsored and sometimes not. Then this local store joins the wholesale, as they call it, and they subscribe so much capital to the wholesale cooperative society. So you have consumers owning retail stores, and those retail stores subscribing the capital which maintains the wholesale, so that the consumers indirectly own the wholesale.

Then they have gone much further, and they have their own factories in the various lines. They have the biggest flouring mills in Scotland, and I believe that over 75 per cent of all the wheat that is imported into Scotland from Canada is imported by the Scottish wholesale cooperative societies and is ground in the mills of the cooperative societies.

But the thing I am getting to is this, that they have eliminated none of the elements in this chain that is common to us here, and all over the world so far as I can find—the producer, the wholesaler, the retailer, and the consumer. They have their factories, but their factories can not sell direct to these consumer members. They can not even adjust their affairs to attend to individual retail stores. So they set up these wholesale establishments at convenient points throughout Scotland, the headquarters being at Glasgow. The wholesalers can not deal directly with the members scattered all over Scotland, so they have their retail connections.

So they have an exact replica of the system that we are familiar with here, the only difference being that they are consumer-owned and operated. And they present a very interesting outworking, which seems to me to exemplify one of the irreconcilable ambitions of men. Generally speaking, when we speak of the ambitions of labor we mean that they want to be more independent, better paid, and so on, and have a greater voice in management. But if you look at the outworking of this movement in Scotland you find this: The factories are consumer owned through the cooperative societies largely composed of union labor; the labor in these shops is in considerable part the owning membership and if this cooperative system saved great profits ordinarily absorbed by private distributors, it would have funds to pay exceptional wages or otherwise advance its workers. In other words, here we have some approximation of the dream of labor working in labor-owned and labor-managed industry and the product distributed cooperatively. We might expect, if the system were superior to find that these workmen would be able to pay themselves better, treat themselves better, or make greater profits for return to its members than private industry does but instead we find this labor exactly in the same status and working under the same union rules and the same union scale of wages and hours and all other arrangements as in all the privately-owned factories in Scotland. So there is no saving in labor costs, there are no better conditions for the wage earner, there is no change in the number of steps. There is nothing eliminated or altered, so far as I have been able to make out, save only one thing, that any profit made in these stores is returned to the consumer, and they do habitually return about 5 or 10 per cent of the purchases made by each family.

The very interesting question arises whether they have overcharged 5 or 10 per cent in the first place in order to return the 5 or 10 per cent afterwards. So far as my opportunity for observation permits

me to form a judgment, I am inclined to think that they do overcharge 2 or 3 per cent, and they do really save them about 2 or 3 per cent.

The CHAIRMAN. Do they give them substantially the same service as privately-owned concerns?

Mr. INGERSOLL. No; they do not have the local delivery systems and that sort of thing so much. And, on the other hand, you can hardly buy any well-known article; there is very great difficulty in finding out whether they are actually giving you something cheaper than the other fellow or not. Take, for example, soap. The great soap in England for family and household use is Sunlight soap. They do not sell you Sunlight soap; they sell you another soap at a penny or so a cake less. It does not weigh exactly the same, and nobody can tell whether it is exactly as good, and so on. So you can never find out whether they are actually delivering better values than the other stores, except by the purchase and analysis of a large number of the things sold in the respective systems. And I did myself purchase and analyze a number of what I regarded as typical things, and my conclusion was that they did overcharge; that is, they charged 2 or 3 per cent more than the ordinary little local stores that were doing business side by side with them.

So far as any ordinary examination goes, there is not any reason why they could do any better than their privately conducted competitors, because—well, I think it is only fair to say that they have hardly yet had a fair test, because they almost always install somebody who knows nothing about merchandising to commence with as the manager of the store. The fellow who promotes it is often a union leader or a lodge member or something of that sort, who has had no experience in buying, who knows nothing about the line of business, who knows nothing about hiring clerks, or running books, or keeping track of obsolescence, depreciation, and all the other factors that go into merchandising costs. He is installed as manager, and naturally a great many of them fail, and a great many of them involve the investors in considerable losses. If it were possible to aggregate all the gains and losses, my judgment is that there would be found a very considerable net loss out of their attempted operations.

But the point I am driving at is that even where you have the whole thing ideal, carried out under one ownership, where practically half the whole country is embraced in a system of cooperative distribution, you still have a replica of the ordinary system that we have. There is nothing eliminated. And even this is true, that those wholesale houses have found it necessary to send traveling salesmen out to sell the goods to the stores that own them, and that you would think would buy from them and buy nothing from anybody else. But after a while those retail stores that are set up there find that a representative from a jobber or manufacturer, privately owned, comes along and says, "Here, why do you buy that from the wholesale cooperative society? We will sell it to you cheaper than they will." And so they start to buy some bargains that way. They think they are getting better values, and no doubt they are sometimes.

Also, the managers of the wholesale cooperative societies say they have to send out men to stimulate these stores. They have to teach

them how to do business, and they have to show them the possibilities that lie in the merchandise and encourage them to try to get up a larger demand among their members, so that they can produce in larger quantities and get lower costs, and all that. In other words, it is an entire repetition of the stories that any private manufacturer in this country or anywhere else would tell under similar conditions.

The CHAIRMAN. I understand you were in Denmark, too?

Mr. INGERSOLL. I was not in Denmark. I collected the literature of the societies in Denmark.

The CHAIRMAN. The proposition is organized from the other end in Denmark, is it not?

Mr. INGERSOLL. Yes; the dairymen and cheese makers, and so on.

The CHAIRMAN. The statement was made here by somebody, I think, that the producer in Denmark got something like 90 per cent of the ultimate price to the consumer of his product as compared with about 35 to 38 per cent here.

Mr. INGERSOLL. Well, I have not here even such material as I did collect concerning Danish conditions, but I have no hesitancy in saying that that is very, very wide of the mark. I feel quite safe in giving the offhand conjecture that there is not a difference of 5 per cent in the amount received there and in England or here. The conditions work out very much alike.

I went to England prepared to find quite different conditions. I found that the only difference is that the retail merchant is a little bit more independent there than he is in this country; that is, he is not accustomed to taking assistance from the manufacturer. Here we have worked up what I regard as a more cooperative system than the cooperatives; that is, we have private manufacturers who will undertake to produce an article, and who will then go to the retailers and explain to them what they are aiming at, what they are driving at, and will undertake to advertise those goods and make a market from which the retailers can benefit; and the retailer then will join in and take the goods and display them and push them. So you have a cooperative effort on some specific concrete plan, wherein the several elements join to attain one end, the manufacturer from his end pushing his goods out and sending a message directly to the other end to the consumer to come forward and buy, and the wholesaler and the distributor willingly taking up and carrying those goods to meet that suction demand from the consumer. And I believe when you can get that condition you have reached about the possibility of economic distribution—a minimum of friction or waste.

I think I have given enough illustration to show that this so-called ambition to eliminate the middleman is illusory, that you can not do it, that when you do it you merely substitute the same thing under some other name and you have made no inherent gain. There is nothing in it to lead us to expect there will be any lower price or any gain to the consumer.

The CHAIRMAN. In making that statement I assume you are not referring to staple articles, like sugar and wheat, where there is the intervention of the exchange system, or brokerage system, under which speculation takes place in the warehouse receipts or other documents representing the article itself?

Mr. INGERSOLL. You are right in that assumption.

The CHAIRMAN. Of course, it is not fair to assume, I suppose, that even there the transfers that take place do not serve any useful purpose. But, after all, I think most people agree that as to the staple products there are certain other factors entering in, in addition to those you have mentioned, which do tend to increase the number of turnovers and therefore to increase the cost of distribution.

Mr. INGERSOLL. But I think you will agree that that generally is practiced in what I distinguish as the process of assembling prior to distribution. It is in getting the wheat of one farm joined with the wheat of another farm, until you get it to the elevators and assembled in big quantities, and so on. After you have got it assembled, generally speaking, I think you will find that the four factors remain quite constant.

The CHAIRMAN. Well, you have substantially the corollary of your four factors at the other end; you have the producer and his local elevator or local shipping associations; and you have the terminal elevator or the big stockyards at Chicago or Minneapolis. You have those two agencies between the producer and the manufacturer, so that you have practically the same sort of arrangement.

Mr. INGERSOLL. It is just the inverted system; yes. Of course, if you are thinking of some highly specialized businesses, even in ordinary manufactured products such as cottons and woolens and some of those things, you find some additional factors in there. You will find that the manufacturer does not sell to the wholesaler, but has a commission broker in New York or in some big center who handles the entire product of that mill as a mill agent and sells to the wholesalers throughout the country. But I believe those are legitimate operations and represent necessary work and a net economy, or else they would not persist. There is no franchise or anything of that sort attached to it, and if it were not the best system it would be eliminated by competition.

The second point that we examined into was this question of eliminating unreasonable or unearned profit. It is true that in nearly all of the merchandise ordinarily handled in retail stores about two-thirds of the consumer's price, speaking approximately, goes for something else than the original physical production of the merchandise. It is a spread that we commonly regard as being devoted to distribution, and we think of it as profit pocketed by the retailer or by the wholesaler. And that, I believe, is one of the very great causes for this dissatisfaction, and a very justifiable dissatisfaction, with the existing distributing conditions. I think one of the reasons for the prevalent dissatisfaction is, also, so many of the claims put forward by retailers in their advertising of mark downs that they claim to be giving, and that sort of thing, which spread the impression that under ordinary conditions they must be making tremendous profits. To that extent I think that the retail merchants themselves are responsible for the blame that attaches to them.

The CHAIRMAN. You think that when a merchant advertises at $46.50 a suit that he formerly sold for $80 it gives the impression that he must have been making a big profit when he sold at $80, if he did?

Mr. INGERSOLL. I think so. Of course, that impression emanates from a very small minority of the merchants. If you go across the

country and consider that we have in excess of 300,000 retail stores in the United States, you will find there are very few of them that advertise in any organized way at all or put out any such claims as that. But there are a few papers published in New York and Chicago and the other great centers that blanket the whole country pretty well, and they carry full-page announcements every day from half a dozen local institutions saying these things. And so I believe that the advertisements of a relatively small number do convey a very general misapprehension as to the real facts.

Now, it becomes interesting to examine into the question of where that other two-thirds of the dollar goes that the consumer pays, if it does not go for the goods, and what chance there is of recovering it for the benefit of the consumer.

Here is a chart representing the dollar, divided to show the manufacturing cost, the manufacturer's selling price, the jobber's selling price, and the retailer's selling price for the goods in the lines represented by my investigation. The process was to send field investigators out into the various sections of the country, and having the prices at which the manufacturer sold—which it was easy enough to obtain, either from the manufacturers or from the jobbers who bought from them—to find out what the retailer paid and what he sold for; because if we could not find out from him what he paid we could find out from the jobber. And so we built up a mass of data from which these deductions [indicating chart] were drawn.

This is a composite statement, representing various lines of business. That is, there were drug stores, hardware stores, jewelry stores, furniture stores, clothing stores, haberdashers, and so on. Those things vary, but this was taken as nearly as we could make it with what material we had to work with. We found that about 37 cents represented the manufacturer's cost to produce, that the manufacturer spent about 12 cents in selling expenses, and made a profit of about 4 cents on the dollar; that the wholesale expense for doing business was about 10 cents, and the wholesaler's profit was about 3 cents out of the dollar; that the retailer's expense was 28 cents, and his profit was about 6 cents out of the dollar.

The CHAIRMAN. You have not anything in there representing freight costs?

Mr. INGERSOLL. No; not separately.

The CHAIRMAN. Is that included in the item of expense of doing business?

Mr. INGERSOLL. Yes; that is included; for instance, the wholesale merchant's cost includes the cost of the merchandise and the freight and delivery and everything that enters into it.

The striking thing about this, apart from the small part of the dollar that went into the original production, is that we have here [indicating on chart] 28 cents for the expense of doing business and 10 cents for expense of doing business, which makes 38 cents. Then, here we have 12 cents, which makes 50 cents for the cost of doing business, apart from the cost of making the thing. Further, we see that the total profits come to 13 cents out of the dollar.

So that unless somebody could find some way of making economies which do not exist in the system, if the cooperatives were able to do business without any profit, or if the department stores or chain

stores were able to do so, the gross saving possible would be 13 per cent. That is, provided they could do business without any profit.

The CHAIRMAN. If they did business with the same degree of efficiency and made no profit whatever, the maximum saving would be 13 cents on the dollar?

Mr. INGERSOLL. Exactly. Now, as a matter of fact, the opportunity for saving is not in the profit, which is the thing that so many people get mad about. No one can really complain of those profits very seriously. The opportunity for saving, if any exists, is in reducing these terrible expenses of doing business—28, 12, and 10. Half of the dollar goes into expense, which you can not eat or wear.

The opportunity for that saving consists, I think, primarily in the point you touched upon in a question asked early in the afternoon—the relation between the investment and the volume of sales. But before we go into that, which is the final point I have to make, and possibly is the suggestion of any value to come from any contribution I can make, and so far as I know of any inquiry that you can carry out, I think it is interesting to note——

The CHAIRMAN (interposing). If I may interrupt there, that division would substantially pertain, regardless of the price level that obtained at the time?

Mr. INGERSOLL. Yes, sir.

The CHAIRMAN. Your price named might be relatively high or relatively low as compared to the average—I mean might be relatively high or relatively low on any given period?

Mr. INGERSOLL. Yes, sir.

The CHAIRMAN. But the same ratio of cost would obtain for any price level?

Mr. INGERSOLL. It did. You take it throughout the war, and, of course, there was some profiteering and some jockeying of prices, but much less than is popularly supposed, and yet enough to cause a good deal of dissatisfaction, but the retail merchant made some change on the upward trend in the market. If he was a good merchant, he advanced the price of his goods on hand when the cost of replacing them went up, so that he might profit on anything he had in his store as of that time as against the time when stocks went down, for if he had stocks on hand when prices went down and some competitor then was buying at a lower price, no man would pay him any more than the current value elsewhere and he must sell those stocks at a sacrifice.

The CHAIRMAN. Do you think that kind of practice was very prevalent?

Mr. INGERSOLL. Not nearly so prevalent as it ought to have been as a matter of sound merchandising, but it was a practice that was followed by all the big stores, all the department stores and chain stores, and the more expert and enlightened merchants.

The CHAIRMAN. We had a gentleman here the other day, representing one of the largest retail stores in the country, and he told us they did not do that.

Mr. INGERSOLL. I would not be prepared to say they did not do that. Perhaps I did use the word "all," and when I used it I meant to say the great majority. And I feel as though I speak with knowledge, because I was in contact during that period with a very large

number of the most competent merchants in the country. It was a big question—what was the right thing to do. We were engaged in war, and there was a good deal to be considered, and there were even questions of patriotism concerned in the subject, and it was very necessary to get the views of the leaders in business and decide what the proprieties called for.

It was the consensus of opinion that the only way to save the wreckage of failures after the war was for those merchants to build up a reserve at the time, because they had no reserves and there was bound to be a period of deflation after the war; there would be heavy purchasing when everything was short, and then there would be a time when merchants would be caught long with stocks at high prices, and the only way they could weather the liquidation would be to build up a reserve on the upward trend of the market.

Mr. Chairman, were you asking some questions about this subject that I did not answer?

The CHAIRMAN. No; I think you covered the question I had in mind.

Mr. INGERSOLL. There are two things that will be important to have brought out here:

(1) Long before the war period there had been a steady and marked increase in the cost of doing business and which is reflected in the cost of living. It seems rather insignificant and moderate as we look back on it now, considering what happened since 1914 and 1915 in this country, but prior to that time there had been a steady advance in the cost of doing business. For example, in the case of department stores in 1890 the overhead expense of a typical department store doing an annual business of about $17,000,000 a year, was 15 per cent. And that had mounted up almost at a steady ratio until in 1913 it had reached the point of 26 per cent. That was before the war or anything else of an extraordinary nature had affected costs. It had well-nigh doubled.

If you take an ordinary dry-goods store in a moderate-sized town, a store doing a business of $150,000 a year, and that is a good healthy store in such a town, if you know about an ordinary small town dry-goods store; its cost of doing business went from 8 per cent in 1890 up to about 17 per cent in 1913.

And if you take the small store, the ordinary little retail store, the drug store and hardware store and notion store, and even the grocery store, doing a business of $25,000 a year, which is the ordinary volume, its cost of doing business went from about 7 per cent in 1890 to about 16 per cent in 1913.

The CHAIRMAN. Did you make any analysis of that increase to show where it occurred—what items it occurred in?

Mr. INGERSOLL. Yes, sir; we made an analysis of that, and I have the figures, but I do not think I have them with me. That increase occurred very largely, as I recall it, in cost of labor—clerk hire.

The CHAIRMAN. Such figures as we have been able to get, going back over past years very superficially—on my part, at least—rather indicate that the cause of the increase spread out in all directions. You can not put your finger on any particular place and say, "Here is where the increase took place, and this is the place you want to cut down, this is the place where you can make a saving," but you

find an increase all along the line—cartage charges, freight charges, clerk hire, and everything else.

Mr. INGERSOLL. Oh, yes. I do not regard any figures in subjects of this sort collected since 1914 and 1915 to be true barometers of anything I can think of. That is, there have been so many abnormal conditions in connection with supply and demand that no ordinary working could be based on conclusions from what happened in this very abnormal period. In other words, Mr. Chairman and gentlemen of the commission, it was no credit to me as manager of sales and advertising to increase my business in 1918 or 1919 when every man, woman, and child was simply shouting for goods, and it was only a question whether my factory could furnish them to me or not. I was entitled to no credit for increasing sales or profits. Nor did it signify anything that sales in Cleveland increased and sales in Philadelphia, say, fell off. It was only a question of friendship with a bookkeeper or shipping clerk or something of the sort. There is nothing in written records—in books—to disclose as to what may be expected from what happened in that time. In this earlier period for which I have just quoted rising expenses it was entirely different; everybody had goods and was anxious to ship them. It was not a matter of favoritism as to who would get your goods, but the question was: Is he rated well enough to pay for them?

The point to be gotten from this chart is, there was an increase in cost of doing business prior to 1914—these figures go from 1890 to 1913—and it was a very material increase in cost.

And the other thing to note from this is the very marked difference in cost of doing business when you compare the big store with the small store; the little stores are economical so far as cost of operation goes. The big store, as you will see on the chart, started with an expense of 15 per cent as against 7 per cent for the small store, or about double, and now the big store has an expense of about 26 per cent as against an average of about 15 per cent for the smaller store.

The CHAIRMAN. What is the basis for this line [pointing on chart]; is it sales?

Mr. INGERSOLL. It is cost of doing business against volume of sales: that is, percentage of expense of operation against the amount of goods sold, value of goods sold.

The CHAIRMAN. It would seem as though the volume in the larger store ought to bring that line down?

Mr. INGERSOLL. You are expressing again a very popular theory. You are probably doing what a great many people naturally do—concluding that inasmuch as large scale manufacturing is economical that large scale distribution is also economical. But the inherent problems in the two things are so different that you can not compare them. In the one, production is the problem of organization under one discipline and control—machinery, and so on—so that it can up to a certain point be more efficiently conducted on a big scale than on a small one, although it should not be overlooked that there is a point where this efficiency goes down again.

In the case of distribution comes the question of going out to people whom you can not control and can not order to do anything. You must appeal to them to buy from you. You must corner them where you find them, and offer them service and price and all

manner of things; and in the very nature of distribution the man who can get closest to the fellow he wants to sell to can do his selling at the lowest cost. And the neighborhood store, which does not have to advertise against the natural barrier of distance, to whose doors the people from the village and the surrounding country come and buy and meet the owner face to face, and which owner does not have to spend barrels of money on large pages in the newspapers and send expensive delivery wagons 20 miles to deliver, perhaps, a spool of thread; and which does not have to have an immense organization of people to watch the people that are selling goods to see that they turn in all the money and do not take away merchandise. I say, such a store does not have the problems of inertia that result in the case of the big organization, nor does it have the expense and difficulty that results from absentee ownership; that is, delegated management and authority.

Those are the things which make for larger expense in the case of the big store, and, of course, it could not compete with the little store if it were not for the advantage of 10 per cent or 15 per cent or 20 per cent in the buying cost. That is where it evens up and takes care of the increased cost of operation over the little store.

The CHAIRMAN. How large a factor is service space in the case of the large store?

Mr. INGERSOLL. What do you mean by that?

Mr. PAULL (secretary to the commission). Reading rooms and rest rooms and other things of that kind is what Chairman Anderson no doubt has in mind.

Mr. INGERSOLL. Oh! It is not a big factor. I should think possibly it represented 1 per cent or maybe 2 per cent—no, not 2 per cent but possibly 1 per cent. But you can not measure those things on the basis of cost alone. You have to know how much trade that brings, how much business the store does that provides such conveniences and how much trade they add.

The CHAIRMAN. I suppose also you have to consider the character of the public the store caters to?

Mr. INGERSOLL. Yes. One of our big stores in New York which claims to undersell all other stores by 10 per cent gives its answer if you ask them on what basis they are able to do it: We sell for cash only. If you ask them: Why are you so much more expert than all these other great stores? They will answer: We sell for cash only. If you ask how much are the losses in the case of credit extended by other stores you will find they run from one-half of 1 per cent to perhaps 1 per cent, varying in different stores.

How can you account for this claim of selling 10 per cent cheaper than other stores, then? Let us look at the other side of the picture. How many people do they shut away from their store entirely by reason of the fact that they do not extend credit. How much business do they fail to get, perfectly good business but simply because people do not want to carry cash to the store? It is very doubtful whether there is any saving. Still, in a place as large as New York there is room for different policies. One set of policies will fit one place and another another place.

I myself never purchased anything there, and my family never have, and quite largely because they have no credit system and it is

not convenient to think ahead just what you are going to buy, just what it is going to cost, and carry the cash, and have no record of what you spent your money for, and so on.

I know there are many patrons whose business is lost to that store by reason of that policy, and therefore that policy by no means indicates all gain and no loss.

The two things then have been, rising cost of doing business, and it costs the large store quite considerably more than the small store to operate and——

The CHAIRMAN. Is that shown on that chart?

Mr. INGERSOLL. On this next chart is quite a little more detail about the average cost of doing business, showing different lines I have talked about, because there are many different lines of business in the dissection of the dollar. Here is the department store, the variety store, the hardware store, the dry goods store, the boot and shoe store, the furniture store, the jewelry store, and so on.

The operating cost of the department store is higher than that of any other except the jewelry store. If you compared the cost of the jewelry department in the department store, taking it by itself, with the jewelry store, you would have a considerably increased cost of operation for that department. This ranges from about 16 per cent for cost of doing business in the case of the grocery store up to about 27 per cent or 28 per cent in the case of the jewelry and department stores.

I will leave with you copies of these charts, if you care to have them.

The CHAIRMAN. We will be very glad to have them.

Mr. INGERSOLL. The second proposition that we started out with was to find out whether there was any way of eliminating unreasonable or unearned profits. From an examination we made of the profits, I will say that it is not profits that offer an opportunity for saving, but it is expense and waste included in expenses. It seems quite absurd that out of the dollar 28 cents should be spent by the retailer in passing an article across his counter, so to speak. If we could increase the efficiency of the merchant, why, we have not only the profit but the 50 cents of expense to cull from in making sales. It is a question of increasing the efficiency of the distributor that should be looked at, and the most direct hope is to teach him a few primary requirements of merchandising.

If you will think back and take into consideration a few stores you know of and how they came to be doing business and what the preparation and qualifications of the storekeepers for their job are, you will come upon one of the primary reasons for this waste or high cost, and it is not going to do any good to merely damn the distributor and say, "We are going to eliminate him, and going to do this, that, and the other thing, and bring about the millenium." Things worth while do not come so easily as that. It is not change of ownership or any other hocus pocus or shuffling of the cards that is going to get that result. It has got to come by good, hard-earned thought and work.

The waste that is going on is not eliminated by the cooperatives. It is not done by any good intentions. I do not care how religious a manager might be that you put over a store, if he does not know

how to run the store his good intentions are not going to effect any economies in distributing expense. It is "know how" coupled with other qualifications.

And there has been no place where anybody who wanted to learn the merchandising business could get preparation. If you are a lawyer, you have the organized knowledge of everybody who has been engaged in law for generations. I happen to be an engineer, and in my preparation I had an opportunity to get all that has been done from Benjamin Franklin's time down in the line of organized knowledge applied to electrical engineering.

We do not allow a doctor to practice his profession without he satisfies society in some manner of his qualifications. We do not allow a lawyer to practice, and we do not even allow an engineer to put "E. E." after his name until he has satisfied society by some prescribed method that he is qualified for his job.

But every man who has failed at everything else can set up a corner store and add to the number of people who have got to be supported out of the distributing system. Anybody considers himself qualified, if he fails at every other thing under the sun, either to take a job on the road as salesman or to set up a store. If we examine how expenses come about, and take 28 per cent for expense as typical of operation of a store, and examine the details, we will see where there is some hope of getting it down to some reasonable basis. This third chart represents the composite of expenses going into the stores that have the higher operating costs.

The CHAIRMAN. You are talking now about retail stores?

Mr. INGERSOLL. Yes; retail stores. I have divided them into two classes—these expenses, I mean. One I call time expenses, and they are expenses that run on account of length of time involved in transactions, and the other I have called labor expense, which is the buying, clerk hire, and so forth.

It so happens that these expenses divide equally, making 14 per cent of the expenses for time expense and 14 per cent for labor expense. A typical expense for rent is 6 per cent. That is pretty nearly the average ordinary rent expense. By the way, I should have said that this chart is headed so as to cover one turnover a year. That is, if a store has to have $30,000 worth of goods in stock to do $30,000 worth of business a year, it is what we call one turnover a year. It means it only moves its stock off its shelves once in 12 months. Therefore, it has to pay rent averaging on everything for one year, which is 6 per cent. And it has to charge interest at 6 per cent on its investment in stock, this being the normal rate. Heat, light, and insurance and those incidentals ordinarily total 2 per cent, which makes 14 per cent on account of time.

But we have here labor expense. Buying and traveling to market, about 1 per cent. Clerks, sales people in the store, about 8 per cent. Advertising, about 2 per cent. Expressage and delivery and sundries, about 1 per cent. Breakage, loss, and obsolescence, about 2 per cent. There is a total of 14 per cent for that section, or a grand total of 28 per cent for expenses.

I want to call your attention to what happens if you leave all of your labor expense the same and simply speed up the turnover or the time. If you can get a man to do this $30,000 worth of business

on a $5,000 investment instead of a $30,000 investment, then against any dollar's worth of stock he only has to charge 1 per cent or one-sixth of his year's rent. And his interest instead of being 6 per cent for the year is 6 per cent for two months, or 1 per cent.

And his heat and light becomes one-third of 1 per cent. So simply by increasing his turnover you have cut his time expense from 14 per cent to 2⅓ per cent. That is as much practically as all the profits that exist in the hands of three distributors on the other chart. In other words, that one thing would save the consumer or would make it possible to save the consumer as much as all the profits we think we are going to group by eliminating the middleman or to run co-operative stores. That assumes that these other things would necessarily remain the same.

The CHAIRMAN. That is, your labor item?

Mr. INGERSOLL. Yes; or the one most interesting. As a man who has advertised goods for a great many years and created a market for them and a readiness on the part of consumers to buy them, I think it is simply fooling ourselves to leave that at 14 per cent, because when goods sell so easily that they turn four times a year anyone of us knows that there is not as much clerk expense, there is not as much labor in selling such an article, say the Ingersoll watch, as there is in selling something that people do not know about and that you have to take down off the shelf and explain and elaborate upon and consume a clerk's time and effort upon.

Therefore it would be entirely legitimate to make a considerable reduction also on account of labor expense in the case of increase in turnover and ease of sale. But this chart is merely to illustrate, and I think the point is brought out by this chart.

So far as the facts of the matter go, it may sound preposterous to jump from one turnover a year to six turnovers a year. But I have seen a good many instances where a thing of that sort has been accomplished, and even more extreme things. I know of one drug store that came quite conspicuously under my observation, which was considered a fairly successful store, a drug store doing in the neighborhood of about $60,000 of business a year, and it had something in excess, I believe, of $30,000 of stock on hand, or did about two turnovers a year, and was considered as an ordinarily successful and satisfactory store. A friend of mine purchased it. He boosted that business up so that they got 10 turnovers a year instead of 2. In other words, he multiplied the rate of turnover by five. And if you applied that possibility to stores which are less efficient than the one he purchased was even before he took it, 6 turnovers a year is not beyond question nor beyond what is being done frequently, and the number sometimes climbs to 12.

I have traveled quite a good deal and talked with merchants in investigating this subject. I recall very well being up in a little town in New York State in 1914, the latter part of the year, when business was so terribly flat, just after the European war started and before war orders began to boom things in this country. We went through town after town and heard only the most mournful tales from retail merchants on account of slack business conditions. I spent nearly half a day in one store talking to a man in a little town called Franklin Post Office, New York State. That is between Utica

and Kingston. I stayed there a long time and chatted with this man about conditions.

I was asking him how much business he did a year. Well, he didn't know, but he judged he did about $10,000 of business a year. He said he could give me some idea if he would go back and add up his check book, covering the checks he sent out for goods he bought, but that was about the only way he had to arrive at his volume of sales. He overlooked entirely the fact that he had some goods to start with and had some goods at the end of the year, that his cost price was not his selling price, and that he had no uniform market. I asked him how much goods he had in stock. He said he didn't know, but guessed he had about $10,000 worth. I asked if he had an inventory. He said, "Well, no; I did take an inventory three or four years ago, just so I would have it in case of fire, but never did total it up, but if I was burned out I could present a claim."

I stayed several hours talking to this man, as I have stated, who was a very intelligent but untrained man, not qualified so far as retailing was concerned. I said to him: "Now, Mr. So-and-so, what is it that you keep up on those front shelves?" He asked what I meant. I told him that since we had been talking, there had been 17 people in the store and not one had come farther back than those first two rows of shelves. And I asked him what he had there. He replied that it was nothing particular. But I found it was just what the people asked for.

Prior to that moment he and I had gone over and made rough estimates of the value of the stock and the number of tiers of shelves. In taking this stock out we found that he had there such things as—well, I remember one item was a number of those old silver-plated vinegar, salt, and pepper castors. I asked him when he got those. He said he reckoned he had had them 20 years in stock then. His money is worth 6 per cent a year, anyway. I told him they had been eating their heads off on those shelves all that time.

We pulled off the shelves lots of other obsolete goods he was still carrying on the imaginary inventory he had.

The storekeeper looked at me with amazement when I told him there had been 17 people in and none had come back beyond the first two rows of shelves. He seemed to think I was an automatic adding machine. We then went and examined what he had on those shelves. The articles included soda crackers and tobacco and all kinds of things mixed together, but the things that really were in popular demand were in front. And the funny part of it was that he put them all up there instead of putting them in the back end of the store to cause people to go back past other merchandise which they could see and might buy. His idea was not to let anybody get any farther back in the store than they had to go.

Now, gentlemen of the commission, that is not such an exaggerated illustration as it might appear.

I went to one of the finest jewelry stores in one of the better cities in Ohio. I mean a city like Dayton and Akron, and the dealer carried a stock of over $75,000 to do a business of $60,000 a year. It was a very fine shop, with beautiful fittings and carrying a nice line of diamonds and all other items, but there was no merchandising instinct on the part of the proprietor and no capacity to move goods, and of course his operating cost was very high.

The thing I am coming to is this: I believe the day will arrive when it will be considered the time has come to say to a man before he can set himself up as a distributor, before he can practice, that he shall qualify in some way satisfactory to society as to his fitness. Whether it will be a degree given by a school, or what it is going to be, how you are going to prepare people for that business, I do not know. But I call your attention to this situation, and it seems to me that there is great hopefulness from such an investigation or inquiry as you are making, or I hope you are going to make. And it seems to me if enough study and thought is given to what is brought out in your hearings you will perhaps agree with the conclusions I have arrived at in my limited way that some movement starting from some initial center, such as this, should be set on foot to make people appreciate that this is not a catch as catch can proposition, this matter of merchandising; that it is at bottom a matter of skill and knowledge and that there are some fundamental principles which ought to be recognized and understood; that these many stagnant stocks should not exist, and that attention to turnover must be given, and then attention given to the things that will make turnover, which is result, not cause. That is, almost no merchants have an understanding of accounting, and particularly of statistical accounting, and cost keeping. They do not know how. They are traveling in the dark. No wonder a large part of them fail, and they are more or less all on the edge nearly all the time because they have no definite idea of figures. The Federal Trade Commission has illuminating data on this point.

You heard it brought out by Gov. Miller this morning in connection with the work of the Federal reserve bank of Kansas City, that the status of the farmer—and I think you brought it out yourself, Mr. Chairman—is such that he can not make a statement to a bank that warrants a bank in lending him money. He has no books. He is not in an enlightened position as to his own condition. The retail merchant is in the same situation. As a matter of fact, I do not believe that 5 per cent of the retail merchants are able to make a valid income tax return. If you would really examine the income tax statement of a retail merchant I am quite convinced not more than 5 per cent of them would be found to be based upon accurate books. And I can speak with some knowledge on this point because I had the privilege of setting up an accounting system for three large branches of retail trade—the jewelry trade, the boot and shoe trade, and the hardware trade. I have worked with those merchants a great deal to get them to adopt cost-accounting methods. But just to start out and spread an appreciation of the fact that a merchant is not conducting intelligently his enterprise unless he has knowledge of the elementary facts concerning his own operations at least and has enough knowledge of accounting and cost keeping to keep track of his condition, it would do a great deal of good.

Then of course the merchant should be taught stock-keeping methods, how to keep stock, how to keep from running out of stock. He should know how much to order. Almost all of their buying is done on very broad conjecture. Very few of them have enough records so that they can start out at the beginning of the year and say, "in such and such little department of my store I am going to do so

much business because I did so much last year and so much the year before," not knowing that they have no basis for belief that "I will do so much business this year and, therefore, I will place my orders at the seasonal time in advance for that quantity of goods and get the goods in at such and such time and prepare my announcements to the public, and so forth, to take care of it, and arrange my finances accordingly." They do not run their business that way.

The CHAIRMAN. It is possible for them to run it that way on small volume of sales and with the average amount of help that the average business has?

Mr. INGERSOLL. Yes; it is. I have seen some of the smaller stores adopt a system of stock keeping and accounting which gives them all the essential information. Mind you, they do not have to have such elaborate charts and statistics as you saw Gov. Miller place around the walls of your hearing room this morning, they do not have to have them for a little business, but they do have to have some basic figures; and I have seen a small shoe business and a small jewelry business, doing $25,000 a year—and that is as small as business can be and be at all stalwart; they are weaklings when they get much below that figure and should be wiped out anyway for they are not strong enough to usefully exist—I have seen such businesses install systems which gave them all they needed for a safe conduct of their business. And, happily, usually when they have done that they have also seen a way to increase their business, and instead of doing $25,000 of business a year they have become $30,000 and $40,000 and $50,000 businesses, and have become sounder and stronger in that way.

Of course, it is not only in accounting but it is in having a little stock-keeping system, of buying and purchasing; and they ought even in a small shop have some knowledge of organization and division of duties and functions. Usually they do not know what functions they are supposed to perform. It is all done by instinct and no two are doing things in much the same way.

In most lines of course they ought to have some specialization. For instance, the jeweler ought to have some little knowledge of the elements of art. He and his clerks ought to be able to recommend articles of jewelry that will be of service to the buyer. He ought to be the friend, guide, and counsellor in that department of his customers' lives. In other words, if a woman of the cold Betty Sharp type comes in for a brooch he will not sell her the same kind of brooch he would offer to a zaza. I believe that is really good merchandizing; that the dealer and his clerks should have some knowledge that would tend to cause them to offer articles that would have fitness to the purpose and to the character of the customer. That is what makes institutions such as Lucille, the dressmaker, and that kind of businesses. The illustration is a little bit exaggerated perhaps, but certainly the shoe dealer ought to know something of leather and something of the construction of shoes, so that he and his assistants can give a customer advice as to why one shoe is priced at $8 and another one is priced at $4, and whether the first shoe is worth the difference for the particular purpose of the customer, and so on.

Representative SUMNERS. Where can he get that information?

Mr. INGERSOLL. He can not get it except in the only college for retailing to-day, which is a good store. If he can get into a well-conducted organization like Filenes, in Boston, which is very good in some respects, or Bamberger's, in Newark, or Wanamaker's, in Philadelphia—stores which are known for efficiency in organization and operation—he will have as good an opportunity to get knowledge and experience of the business as there is offered. The more expertly conducted chain stores are also instructive. They are the real colleges to-day. They are going to turn out, from their clerks and managers, the men and women who will have the knowledge to compete with the chain system. They will be the undoing of the chain stores, I believe. Those hired managers will graduate and will set up in private business and will be just as expert and will have the economies the chain systems can not have, and I believe they are sowing the seed of their own fall. However, better and wider means of educating distributors is needed.

Representative SUMNERS. What are the economies that the chain system can not have?

Mr. INGERSOLL. I mean centralized management distant from the seat of operation in the case of extended chain stores. They have at each store a hired manager, a delegated manager in the place of the owner of the store. The buying is done in concentrated and wholesale fashion. For instance, I was talking not long ago with a very good friend of mine who is at the head of one of the largest systems of chain stores in the country, and he was explaining the difficulty he has in his buying organization to have them purchase for a store on Third Avenue, New York, and a store on Fifth Avenue, New York, and ship articles to the stores intelligently; goods that ought to be allocated to each, and prevent an accumulation of unsalable merchandise, and prevent the expense of having to ship out and take back, and so on.

Then, of course, they have all the problems of absentee ownership, the evils involved therein, of checking to avoid theft, and lack of interest of the owner in watching small matters affecting economies, and lack of incentive and initiative, the things that are likely to exist when a man is under distant direction and can not exercise his own judgment.

Representative SUMNERS. Do you think that those balance against the ability to buy in large quantities and to have a trained executive of great ability to direct the management of the system?

Mr. INGERSOLL. I think they far overbalance them. Of course, Mr. Sumners, you have not heard some of the earlier discussion we have had here on this subject.

Representative SUMNERS. No; I am sorry that I could not be present at that time, and if I am going over something you have already discussed, I prefer to read what you have said than to ask you to go over it again.

Mr. INGERSOLL. I would like to answer that one point, because I do not know that I have hit it squarely as you have put it. I think the only need for this very high-grade executive ability to which you have referred, and which does exist in the chain-store system, is on account of size. It is not needed to operate one store, but they do need it because of the problems attending management of a great

many stores from one center. In other words, very much smaller ability would run one store and run it well. If you get one really expert storekeeper, locally stationed and owning his own store, he will run that store better than all the brains in the White House or at the Capitol, and everywhere else, can run stores from a distance.

Representative SUMNERS. Will he run it better and at the same time maintain proper purchasing contact with the market at the source of supply?

Mr. INGERSOLL. Yes; he will do better than that. The chain store has all the expense and all the motion in purchasing and distribution of its merchandise that is expended upon merchandise that reaches the small individual store. Take a big system of chain stores I am well acquainted with, having individual stores throughout the Eastern States and with headquarters in New York. It has a buying organization located down town in New York. It has an immense warehouse there, where people from whom it purchases deliver their goods. There its goods are divided and shipped out to the individual stores and charged to the individual stores precisely like the wholesale dealer in the same line of business next door does. There is no saving in it. There is no higher order of ability in that wholesale warehouse of the chain store than there is in the independent wholesale establishment next door to it. There is no larger buying capacity, because one system owns a couple of hundred stores of its own and the other, the wholesale dealer, sells to 600 or 800 stores he does not own. There is no difference in the organization ability or saving in labor or any other saving I can think of, except certain massed or mobilized control, so that they can say, "We will take our own brand of such and such and put it in all these stores and push that brand."

But there are so many compensating disadvantages that I do not believe there is any gain anywhere in the system. I have never been able to find, either by discussions with chain store people or with the ordinary retailer or with the economist or in my own study of the subject, that there is any inherent economy in the chain-store system, and there are inherent losses.

I was very much struck by reading Mr. Lenin's explanation of why communism failed, because this partakes of about the same nature when you have all the stores in the country organized under one management; you would have a not very much different thing from what Mr. Lenin is talking about. This is according to newspaper reports, as I have not had a talk with him, of course, but he says:

(1) The vast number of enterprises which the State attempted to direct without having adequate supplies of food, material, and experience.

Representative SUMNERS. A bad state of affairs, was it?

Mr. INGERSOLL. Yes, sir.

(2) A confusion of powers and problems of organization in the handling of supplies, which resulted in too much red tape, cross instruction, etc.

It is exactly what you find in a big organization, whether in the Army or the Navy or anything else; the mail-order stores or department stores, or anything big. He says:

(3) The fact that with such methods of supply and with the methods of remuneration those engaged in production and distribution were not acting by interest in their work or in the improvement of the methods used.

The CHAIRMAN. That sounds very capitalistic.

Mr. INGERSOLL. It is precisely the experience, I think, of anybody who tries to accomplish through the organization of large numbers of humans. My own judgment is that highest efficiency is reached in small areas, and particularly in this question of distribution that the closer you can get to the community you are going to serve the better you can do the job. In other words, I feel that it is really more American and really more in accordance with the objects and the traditions of the country to have a man in a community who is an independent citizen in that community, a part of it, who knows who he can trust, who he can give credit to, and who knows when so and so's daughter is going to be married and can go and suggest who should buy weding presents for her, and so on; those are the fellows that can do the best job of distribution. Instead of sending a little package of this size [indicating] by mail and having the Post Office Department handle it, if it is willing to do it; instead of having the waste of sending a little package ordered from a catalogue house in Chicago, sending that package by mail to Texas, it should go in bulk to Texas and be distributed there in the community. It is a much greater expense to have it distributed that way than the difference in operating cost of the mail-order house in Chicago and the little local house in Texas, the latter being able to order a season's requirements in accordance with the needs of the community.

It is an elementary fact in distribution that cost of transportation depends more upon the number of handlings of an article than upon length of haul. It is labor at terminals and the number of handlings that make expense. If you can bring in goods into the little town in Texas from the factory or direct from the wholesale warehouse, and let it come in in a big case and there be broken up and distributed to consumers, you have come nearest to the economies that are possible than any mail-order system or other way.

Representative SUMNERS. Looking at this matter from a practical standpoint and having made a survey of America, do you consider that there are in operation now economic, business, or educational forces, or any other force, tending to decentralize business control and business management and establish this democracy in business which you evidently have in mind as more desirable?

Mr. INGERSOLL. I do not think there are any adequate forces at work to bring about the thing that I consider a desideratum.

Representative SUMNERS. You do not consider that there are?

Mr. INGERSOLL. No.

Representative SUMNERS. What forces could be put into operation which would be in line, I will say, with our national policy and traditions and forces which are available for application?

Mr. INGERSOLL. We ought nationally to study these things that enter into economies of distribution.

Representative SUMNERS. Whom do you refer to when you say "we" ought to do it nationally?

Mr. INGERSOLL. I am speaking of us as a social body, as a country, as a people. I think it might very well emanate from this body. I hope something of the sort may be started as a result of this inquiry. First, because there must, of course, be an appreciation of conditions; a people must have ideas before they can have action.

And, secondly, it should be recognized that distribution should not be left to chance, as it has been. There is no place to-day for a man to become a qualified hardware dealer or a qualified jeweler or a qualified shoe dealer or any other kind of dealer except by a simulation of the old apprentice system to learn how the other fellow is doing it, and perhaps he never knew himself.

The CHAIRMAN. That would be an adoption of obsolete methods.

Mr. INGERSOLL. Yes, sir; it is the old treadmill method—simply following the man before, and without any means of gaining knowledge of the organized methods and experience of the past based upon a course of study.

Representative SUMNERS (presiding). It seems to me that the greatest difficulty which the ordinary small business concern would have, perhaps, would be its inability to get to the communities anywhere near their primary market by reason of the small size of the business and the limited business organization.

Mr. INGERSOLL. Have you no jobbing house in Dallas which brings into Dallas far more goods than any department store could bring into your city in any one line, in dry goods or hardware?

Representative SUMNERS. Yes.

Mr. INGERSOLL. And has not that jobbing house representatives in New York who are very much more important and influential than the representative of your department store?

Representative SUMNERS. Perhaps so.

Mr. INGERSOLL. Why does not that serve the purpose of your local retailer adequately, and with only one profit, and without the direct expense of keeping a man in New York?

Representative SUMNERS. And he would buy from the Dallas wholesaler, do you mean?

Mr. INGERSOLL. Yes. And that Dallas wholesaler—if he is a good man, and, of course, the condition I have in mind should include wholesalers as well as retailers—has his organization in New York, which is in direct touch and probably very much more favorably regarded and his business more solicited than that of the department store.

Representative SUMNERS. Have you any other points you want to bring out?

Mr. INGERSOLL. There is only one other point I would like to leave, and that is consideration of the question of quantity discounts. A few years back the judgment of the Congress, as I recall it, was that there was a system of rebating in practice by the railroads which almost inevitably resulted in the production of monopolies. I think it is worth the attention of this commission to inquire into the nature and extent and legitimacy of the custom of discounts which prevails in discrimination between buyers.

I believe the commission will find that there is the blindest, most footless, and I think pernicious custom of granting of discounts, principally for quantity. I would like for the commission to consider whether discounts should be permitted to be given indiscriminately regardless of any compensation received for them. That is, is a quantity discount to be allowed which is out of proportion to any economies which the quantity purchased conveys? If we permit the practice of giving discounts which are not scientifically scaled

or proportioned to any benefits received, on account of quantities bought, we are really just practicing a system of privilege which encourages injustice and produces trade discrimination. I submit that it may be this system is building us a new set of monopolies.

Representative SUMNERS. Your position is that the wholesaler or those who sell to distributors perform a quasi public service, wherein it is required for the public good that there be equality of charge among the various customers, and that only those operations which represent economies resulting to the distributor from quantity sales should be permitted?

Mr. INGERSOLL. That is quite right. Anything else, it seems to me, should be foreign to fair practice, equality of opportunity and giving a chance for the man without great capital to get into the business game.

Representative SUMNERS. That being your position I assume that you hold collateral to that position that there is owing some public obligation, if it may be so considered, to prevent that sort of discrimination which results in special favors being extended as among those who must resort to this common source of supply?

Mr. INGERSOLL. Now, I don't just get the connection on that last part of the question there. I don't know what you mean as to the sources.

Representative SUMNERS. The wholesalers, for instance. Here all the people must resort to the wholesalers as a common source of supply for that which they distribute among the people.

Mr. INGERSOLL. The retailers, do you mean?

Representative SUMNERS. Yes.

Mr. INGERSOLL. Yes.

Representative SUMNERS. Now, do you hold that there is obligation on the part of the Government, if it can be worked out, to prevent that sort of discrimination, the same way as the Government prevents the powers of discrimination in freight rates, for instance?

Mr. INGERSOLL. Yes; to prevent the same thing; it seems to me there is no difference in essence. Of course, I understand the legal difference between a common carrier and the private enterprises. But looking at it broadly from the social point of view, it is just as menacing to the community to have a system in operation which tends to grind the grist among distributors bigger and bigger and take it from the smaller distributors all the time, so that finally both the producers, who want to reach a common market, and the consumers, that are dependent on that market, have only one channel to go through.

Representative SUMNERS. It seems to me clear that if we are to preserve democracy we must preserve democracy in business particularly.

Mr. INGERSOLL. That is exactly my position.

Representative SUMNERS. I think that is fundamental. And I think another thing that experience demonstrates is that a higher degree of development appears where there rests individual initiative than you can have where you have one great working head.

Mr. INGERSOLL. Quite so.

Representative SUMNERS. One great working head, working a great many people who are more or less machines.

Mr. INGERSOLL. That is quite so.

Representative SUMNERS. So, on that basis, it seems to me that becomes a question of serious governmental inquiry.

Mr. INGERSOLL. Yes, sir. I want just to finish the thought about what you can do to promote some things that will tend to preserve the individual in business. I think that the time has come for us to pay as much attention to distribution as we do, for example, to our agricultural stations. I can not see why a government which can encourage production, as we have done through our Agricultural Department and agricultural stations, should not care about what happens to those things that are produced; and I do not see why we should not take this problem of saving in the case of distribution under serious consideration, and intelligently work toward a method which will economize in these costs, without, as I said in the beginning of my talk, lowering the wages of the wage earners. We want to improve the standard of living for the people; we want them to be able to buy more for their dollar, and yet not to receive less dollars.

Mr. PAULL (secretary to the commission). Tending to reconcile prices and wages through the elimination of waste.

Mr. INGERSOLL. That is it; and it can only be done by adding to the qualifications and knowledge of the distributor.

I have tried to show that these other efforts are futile; that they can not make any substantial contribution, but I think it is time that we encourage the setting up of schools of merchandising. A very few of our universities have schools of business administration, and, of course, we have a large number of so-called commercial schools, which are chiefly stenographic and bookkeeping schools, but there is yet no school which has undertaken to collect and classify and organize what knowledge could be gained about merchandising, and then to teach a course in merchandising.

You will have a tremendous aggregation of data here before you are through, and if anyone would truly study what you collect, and what could be gained by wider research and supplementary research, and then would take these various branches of knowledge which, I would say, are general to all distributing businesses, accounting, and statistics, and cost-keeping, and cost-accounting, and stock-keeping, buying, and some knowledge of practical psychology, and some knowledge of organization, and such special technical training in the given branch of the business as he is going into, that you would then get merchants who could get this turnover and would make the economies that we have talked about. Of course, they must know something about advertising; they must know something about teaching and teach their clerks. But with this fund of knowledge it would be possible to arrange with a number of colleges to organize schools of merchandising and offer courses in them.

Mr. PAULL. Might I ask this: If it has occurred to you that some of this education might well start back in the elementary grades of our common schools; if you refer to the arithmetics now in use you will find that problems are presented on the basis of calling everything above the price paid for a commodity and the price accepted as the wide spread of profit, which in some degree might account for the psychological attitude toward merchandisings on the part of the general public?

Mr. INGERSOLL. Yes; I agree with what you have suggested, and I have further ideas. I believe the educational system could be improved by teaching consumers something of knowledge as consumers, so that they would not be the prey of every hocus-pocus advertisement about buying direct from the maker, and saving a middleman's profit; and they would get a little foundation that would teach them the impossibility of some of the preposterous offers that are made through the advertisements and otherwise.

Mr. PAULL. I was thinking of the next generation of buyers, who are in the present educational system learning the same things that caused the present attitude toward our whole scheme of merchandising and distribution.

Mr. INGERSOLL. I do think, too, that if the educational system taught just a little bit of the legitimate functions of distribution: taught what they were, so that there would be an appreciation that there are real problems and real service in the functions of the merchant, that it would promote a better understanding and remove some of this antagonistic feeling between the different elements of society that cause friction and suspicion and the unfortunate things that follow in the train of those things.

But more specifically and immediately I believe that an agency could be set up that would foster the establishment of schools of merchandising, just as we have schools of agriculture and schools of pharmacy and schools of engineering, and so on. And that while in no one place at this moment does knowledge to teach such a course exist; yet, it is obtainable, and I would call upon the leading merchants of the country to furnish the data, and I believe they would do it. You would find men like Wanamaker, and while I do not favor the chain systems, I recognize them as the most expert to-day, and I would utilize their knowledge and give it to others to prevent a further concentration of business in the hands of the few, who know the little bit to-day that enables them to get more than their share of results.

Mr. PAULL. Does it occur to you that there is some educational possibility in associations of merchants, wholesalers and retailers; that those associations are not formed purely for the one purpose of controlling prices, but rather for the exchange of information in which the individual is permitted to contribute the little that he knows for the much that the many know, thereby realizing a bargain?

Mr. INGERSOLL. I think that that is the real ground of cooperation. I do not believe in the so-called cooperative stores where they think it is necessary to join ownership in order to cooperate. But I do believe that those of kindred interests can have cooperative associations which can accomplish everything that joint ownership would have, and still save the advantage of individual initiative to the social scheme; and I am a very strong believer in trade associations, and in labor unions, too, if you please.

Mr. PAULL. As a matter of experience, is it not a fact that practically all of the progress that has been made in the past has come through association efforts at educational results?

Mr. INGERSOLL. Well, a very great deal of it has, yes, sir. I don't know of any agency to-day that is doing more to promote enlightenment among the merchants, for example than their trade

associations, although those trade associations are not doing a fraction of what they ought to and could do.

Mr. PAULL. Have they not tended to develop a code of ethics tending toward better merchandising practice and a better attitude toward the consumer?

Mr. INGERSOLL. Yes; they have tended that way, particularly some of them. But on the whole they are composed of the very men who are in need of enlightenment, and they do not know what to do, and so they get together, and too much of their time is devoted to discussing literal and petty matters that they consider abuses in the trade; they devote themselves to means of boycotting the wholesaler who has a retail store as well, and matters of that sort, instead of constructive work. And, of course, their dues are so small that the association can not do for its members what it ought to do. If every merchant would contribute $100 per year instead of $1 per year to his association, then it would be able to do a real service for him. And sometimes it is possible even to do cooperative buying.

Production has had a lot of discussion. But very few men can talk intelligently of distribution; they do not know it.

Mr. PAULL. Is that not due largely to the fact that in production they are dealing with tangibles and can call engineering skill to the problems of production?

Mr. INGERSOLL. Yes, sir.

Mr. PAULL. While in distribution there is no established knowledge—no organized knowledge?

Mr. INGERSOLL. I think that is true; I think that is a fact. It is a very big and interesting subject, and we could talk indefinitely about it. There are so many angles that could be discussed; but I think that I have practically covered my subject.

Mr. PAULL. You have completed your recommendations?

Mr. INGERSOLL. Yes; I have covered the ground that I had in mind to cover. And I will leave with the commission a little pamphlet, in which you will find the reproductions of these drawings which I have exhibited here.

(The pamphlet referred to is here printed in full, as follows:)

DO THE COOPERATIVES OFFER A SOLUTION?

HIGH COST OF LIVING ALLEGED TO BE LARGELY DUE TO UNSCIENTIFIC DISTRIBUTION DESPITE VARIED EXPEDIENTS DESIGNED TO REDUCE CHARGES.

[By William H. Ingersoll.]

We are all dissatisfied with the cost of things, especially with that part of the cost known as middleman's profits, the part absorbed in the distributuion of merchandise as distinguished from its cost of physical production.

There is reason aplenty for the deep unrest over the wasteful, inefficient system of distributing goods from farm and factory to user. And yet there is no other important phase of our economic life in which such loose and footless reasoning is indulged in or such baseless hope of relief held out.

An English laboring man, a worker in a shoe factory, put the proposition effectively to me on a recent tour of investigation in Europe, when he asked why his family and the workers in other factories should have to pay 20 shillings per pair for shoes on which he worked and which he knew cost only 7 shillings to make.

It is approximately the same on the bulk of all we buy in this country. The farmer gets hardly a third of what we pay for our potatoes. Two-thirds

of what we pay for our clothing and furnishings goes for distribution and only one-third for the goods. And we can't eat or wear the distribution!

There is no doubt that the laborer is exploited far worse as a consumer when he comes to exchange the proceeds of his work for the products of the work of others than he is as a producer in receiving the short end of what he makes.

So much for the indictment? There has been argument both by academicians and practitioners and attempted demonstrations for years, during which the cost of living has gone steadily higher.

MUST REACH THE CAUSE.

Now, it sounds unreasonable that it should cost twice as much to sell a thing as to make it, if it is a useful thing and the price fair. It is unreasonable, but it won't be remedied by abusing the middlemen or by attempting improvements which don't reach the cause of the waste. The familiar hope is to "eliminate the middleman" either in part or in whole. Various devices have been used to accomplish this. Briefly, we may set them down as:

(1) The department store which aims and claims to eliminate the wholesaler or jobber by buying in quantities from the manufacturer;

(2) The multiple system of chain stores which have the same hope of economy as the department store;

(3) The mail order house which has the same objective economies as the department store and also goes more extensively into manufacturing its own goods in some lines;

(4) The manufacturer of specialty merchandise such as branded shoes or candy, who sets up his own retail stores and "eliminates" the independent wholesaler and retailer;

(5) The cooperative factory which is owned by the workers in the enterprise, eliminating the monopolistic capitalist owner;

(6) The cooperative store, factory, and plantation in which the consumers own the local retail distributing stores, the wholesale distributing warehouses which supply the retail stores and the factories and sources of raw materials and have as their paid employees the producers in the factory and on the farms. This system "eliminates" all middlemen and the manufacturer and theoretically makes the consumer his own producer and middleman.

Various combinations of these devices are found in actual practice in numerous lines of trade. Some department stores own manufacturing shops where they make for themselves the goods for some of their most important departments. The chain store and mail order concerns often do some of their own manufacturing. Specialty manufacturers frequently eliminate the wholesaler by selling direct to the retailers throughout the country or partially do so by selling in the large towns, leaving jobbers to cover the country villages. Retail stores sometimes join in subscribing funds to operate their own factories to make some of their more important merchandise requirements.

Cooperative enterprises exist in all stages of development. Other economies are claimed by all of the institutions described above besides that of eliminating one or more links in the chain, but elimination of the middleman and his "unnecessary" profit or tax is quite generally the starting point in the attempt to reduce the cost of things, especially in the reasoning of the noncommercial consumer and the economist.

Only three avenues of hope lie before us in effecting a lower cost in the things we buy, if we except as outside of our present study, the cost of production. These three avenues may be described as:

(a) Eliminating unnecessary labor in the customary method of distribution;

(b) Eliminating unreasonable or unearned profit customarily exacted in the processes of distribution;

(c) Increasing the efficiency of the distributors.

We may apply these tests to these various forms of modified distribution under trial and we may examine their workings and the actual values they deliver, compared to the values contemporaneously delivered by the ordinary methods to see if the supposed economies are realized.

As to the first of our tests we can't fairly judge of the successful elimination of middle men, held to be superfluous or parasitic, unless we are familiar with the net minimum of work to be done in distribution and the functions and organization necessary to discharge it.

To distribute goods produced in quantities in a factory or on a farm at one point so that they may be accessible to multitudes of individual consumers scattered over a continent, involves several inevitable steps or stages as will be shown, and all efforts to reduce the number result merely in a change of form without intrinsic gain or in the substitution of less direct and more expensive means.

STUDY OF NECESSARY MOTIONS.

Now for a study of the minimum number of motions by which the product of the factory can be made readily available to all the people in any area.

Let us assume that the factory makes shoes of a popular grade and of general utility, both for men and for women.

We will view the problem first from the standpoint of the consumers and then from that of the producer—the factory.

Suppose that a school-teacher in one of the small towns wants a pair of shoes. She wants a good-looking, well-made, durable pair, soft, black, and high cut. They must fit her and be comfortable. And she wants the best value in the market for her money.

She does not know shoes or the best leather for her purpose; nor can she tell an oak tanned sole when she sees it. She is uninformed as to what constitutes good sewing and good workmanship. She does not know all the factories there are making shoes nor their location—nor which makes women's shoes or which makes the best or what different styles each makes. She knows nothing as to which is the most efficient, economical manufacturer and marketer of shoes, or which is most reliable.

In short, she is a specialist in one vocation, giving her expert services for the benefit of others and consequently she can not be informed on shoes and clothes and jewelry and drugs and hardware and household furnishings and groceries and all the other branches of trade and industry.

So she needs the reciprocal services of a shoe expert to help her choose wisely to fill her present want. The factories are far away. She is in a remote little town. She wants to compare products and values. Styles change. Prices change. Factories and their characteristics change. Most of all she wishes to try on her prospective shoes and see that they fit and look well under the guidance of some one competent to advise.

She needs the services of someone who knows shoes, who knows the community and its needs, who searches in the great market for the most suitable goods that his neighborhood will require, and anticipates the quantity of each style and each size that the community or a part of it will want for the season, and by ordering months in advance has on hand several appropriate offerings to meet her needs even before she herself is aware that she wants them.

This representative to serve her and others in the capacity of shoe expert is the local shoe dealer and his stocked store. The function of the local exhibiting and distributing depot under qualified supervision, where goods may be had on a moment's notice, may be seen, tested, compared, and selected with expert assistance, and perhaps secured on credit, is apparent. A local distributing store is indispensable in the scheme of things. It may be a privately owned store, of a local proprietor or a cooperative store, or a manufacturer's store, but a local stock is requisite.

PROBLEMS OF LOCAL SUPPLY.

Then, how is the local supply to be chosen? Can the shoe specialists of many thousand communities make tours of all the shoe factories of the country in advance of each season? Most of them do a small business, serving only a few hundred customers. Their business can afford only meager assistance, and they can not leave their little establishments much of the time. And it would add considerably to the price of shoes if an army of some 30,000 shoe dealers were to be put to the traveling and hotel expense of touring even a portion of the shoe factories of the country several times a year, and it would add to the expense of the factories to provide facilities and clerks to receive and look after them.

Yet the shoe dealers must keep abreast of the changes and developments of their trade—the new styles, improved quality, changes in construction, new factories, changes of business policy and personnel—in order to serve their customers with the most suitable that the market affords.

Instead of having shoe dealers from all sections required to canvass the shoe market covering all sections, it is incomparably simpler, less expensive and more orderly for the samples and information of all producers to be available for inspection and purchase at each of the great zone centers of population. Here in showrooms and warehouses the goods can be seen and stocks carried so that, for example, all of the dealers in the territory surrounding the wholesale point may, by going a short distance to this center, examine and compare all of the likely products suitable for the use of the consumers in that zone and, as their customers' representatives, select and order suitable styles, sizes, and quantities which their experience teaches them will serve the needs of their community.

In other words, not only the consuming public must have expert services in filing their needs, but these representatives who serve them as retailers in this capacity must again call upon others to cull and select and bring into their general zone the fittest and most valuable examples and stocks that the shoe factories have to offer. This constitutes a main part of the function of the wholesaler who buys from the manufacturer, carries stocks to serve a more or less extended zone or district, and has an organization suitable for selling not to individual consumers, but in quantities to fit community needs as bought by dealers.

In this form distribution has worked itself out the world around. From olden times to the present and from New York to Shanghai, either way around the earth, this constitutes the backbone of the system by which the bulk of commodities is transferred from maker to user.

TENDENCY IS TO SPECIALIZE.

It represents the natural tendency of man to specialize. Production, distribution, and consumption are three separate and distinct economic phases. They are utterly different in nature and requirements. Combining them under a single ownership does not eliminate the functions to be performed or the labor of fulfilling them. This existing division accommodates itself not only to man's nature but to his geographical distribution in cities, towns, villages, and on farms scattered across the land.

Before attempting to see how the several endeavors in the way of chain-store systems, cooperative schemes, manufacturers' stores, etc., to eliminate the middlemen compare with the ordinary system we have just examined let us consider the problem from the producer's viewpoint for a moment.

Take the manufacturer, for example, situated adjacent to a large territorial area in which are millions of people, all of whom wear shoes and most of whom presumably could under favorable circumstances be induced to use his products.

But how can the individuals of a nation scattered over a great area be approached individually by the manufacturer? He does not know who they are or where they are. He can not write to them all. He is in one place, they are in thousands of other places; the cost of sending traveling representatives to serve these individual consumers would be prohibitive.

Even if he could find some way of getting them to order by mail, without seeing or trying on his shoes, how would the matter stand? Supposing the school-teacher had by chance had a pair of his shoes which were exactly right and knew the current price and sent him the money by mail for a duplicate pair. This order for a single pair would entail about the same work as a wholesaler's order for a thousand pairs; the letter must be opened, read, the money counted and compared with the price list, records entered in cash books, etc., the particular style and size of shoe picked out in the stock room, special packing and wrapping and individual addressing of the package, provided besides records and receipts for reference in case the teacher complains that the shoes never reached her. And then commences another series of labors in transporting and delivering this pair of shoes, disproportionately great as compared with the same work on a case shipment or carload of shoes. This parcel must be called for or delivered to the express company or post office. The address must be examined and classified and the package routed. This must be done over and over again, involving the use of expensive human time and attention at each new stage of the journey. Two pairs could go about as cheaply as one, a dozen as two.

It is not the weight of the package so much as the care necessary to be bestowed in the handling and rehandling of each individual consignment, whether large or small.

WHERE EXPENSE MULTIPLIES.

Retail operations should be confined to the local retail store. To require the manufacturer and the transportation systems to perform these unescapable retail operations is to multiply expense.

The manufacturer is a specialist engrossed in the operations of production—contracting for raw materials, providing plant, equipment, machinery, organizing for its upkeep and operation, dealing with labor and administration. In the nature of things he is not organized to handle retail orders at the factory.

And as to transportation, it is an elementary economic principle that goods should be transported in bulk to as near the point of consumption as possible. Therefore the factory will ship in great consignments the needs of a whole zone to the zone centers. There the goods are subdivided and shipped in community lots to the towns surrounding the centers. There in retail stores the retail operations of filling individual consumers' needs can best be performed. This discloses the falsity of most of the appeals to "buy direct from the maker and save middlemen's expenses."

Now let us see whether the chain stores, the department stores, the mail-order houses, the manufacturer's own stores or any cooperation plans really succeeded in eliminating either the wholesaler or the retailer. The producer and consumer we know are principals who can not be eliminated.

The department store aims to eliminate the jobber (wholesaler). Does it do it?

In principle the department store is a collection of stores in different lines of business under one roof. At the head of each substore or department is a buyer and manager, a paid employee who takes the place of the proprietor of the ordinary specialty store, so that there is a change of form but not of essence in this regard. Some of the departments of the larger department stores in the greatest centers do buy direct from manufacturers, thus appearing to eliminate the wholesaler (jobber). But generally speaking they do not buy in genuine jobbing quantities or accept deliveries of stock in advance of seasons or carry stocks ahead as do the jobbers. This has necessitated that manufacturers who cater to this department-store trade establish their own branch warerooms in the leading centers for the convenience of these customers so that in place of the independent jobber we have the manufacturer setting up what amounts to a jobbing business with his own capital—a change of form but not of substance. Nothing has been eliminated. No labor has been saved—merely the producer assumes what was previously the jobber's job.

But several other associated facts should be borne in mind. Most department stores buy largely from jobbers. Some lines of goods they buy "direct" but still as a department store carrying full assortments, not a one could exist without the service of the jobber with his ready stocks to supply their "fill-in" orders between seasons and the incidental convenience items that they only buy in small lots. Therefore, to the extent that they do buy direct and cause the establishment of manufacturers' warerooms for their convenience, they are superimposing these new substitute jobbers upon the already existing system of jobbing establishments which must be continued for the service of ordinary stores and even for their own use on goods they can not buy direct. Therefore, instead of eliminating they have added to the complexity of the distributing machinery and somewhat to the expense. It may not be without significance that even before the world war the most striking advances in the cost of living were concurrent with the great development of the various methods calculated to eliminate and save middlemen. It can not, however, be implied that they were alone responsible for it. Again as to department stores, it must be remembered that those really falling under this head are to be found only in our very largest cities. They are adapted to serve only in congested centers of population and that even in these centers they are so far from the homes of the residents that smaller neighborhood stores and specialty stores do many times the volume of trade of all the department stores of a city put together. They are therefore an insignificant factor in the whole system of distribution of a nation.

WHAT THE CHAIN STORE ATTEMPTS.

Next take the chain stores. Chain stores, in contrast to the department store, may be described as a multiple system of establishments under one ownership and in one line of business under different roofs. They are found in the grocery, drug, hardware, hat, shoe, clothing, haberdashery, candy, cigar, and other

lines. Some combinations operate over a thousand stores and stretch from coast to coast. Obviously they do not eliminate the retail store because they are essentially local retail stores themselves. Do they eliminate the jobber?

Take a typical chain-store concern doing business in the Eastern States. Its headquarters are in New York. Here it buys for a hundred stores. It orders in genuine jobbing quantities just as does the ordinary jobber who sells to several hundred stores. At its headquarters it has a large staff of buyers and a warehouse at which it receives its goods from the manufacturers. But how do these goods reach its branch stores? They must be stored, held in stock, orders received from branches, the goods packed, billed, shipped, and accounted for exactly as in any jobbing concern. Assume that it has one or two stores in Portland, Me. Numerous small shipments must go from New York to Portland. The ordinary small independent store in Portland, however, can buy from jobbers in Portland who carry stocks bought for dozens of retail dealers in and around Portland and brought there direct from the factory in great bulk. Has there been intrinsic gain or loss in this attempt to eliminate the wholesaler? I submit that it amounts only to a change of form with general disadvantage in the change.

We need not go on through the list to dissect the operation of each of the other methods attempted in the hope of "eliminating the middleman." We may content ourselves with an examination of the manufacturer who sets up his own stores and the purest cooperative systems of consumer-owned systems. If the same old middlemen continue to bob up in some form or other we may accept them as inevitable and see where hope really remains.

TAKES UP THE JOBBER'S WORK.

Chains of manufacturer-owned shoe stores are among the commonest of this type. The producer deals "direct" with the consumer. True, the company which owns the stores where the consumers buy makes the shoes. But there is no marked difference between the stores and those of independent retail shoe dealers. They perform the same functions in about the same methods and a paid manager takes the place of the customary proprietor on the principle of the absentee landlord in agriculture. It may also be noted that whereas the independent local dealer represents the consumer, the local manager of the chain store represents the manufacturer and is restricted to the products of one company instead of choosing among many.

The place of the jobber is taken by the manufacturers' own warehouses set up in central points from which the goods are distributed to the local stores of the company. As a matter of fact chain shoe stores are generally confined to large and medium sized cities, and in the smaller towns local shoe dealers act as agents for these same companies buying "direct" from the manufacturer, but receiving their stocks through the same branch warehouses which serve the stores of the companies. It is a commentary upon the economy involved in the system to note that the independent "agent" dealers are sold on terms that enable them to sell to consumers at the same prices as the company-owned stores. Nothing has been eliminated; the branch warehouses of the factory are merely substitute jobbers. Invariably the functions of wholesaler and retailer must be performed, and the only change is in the name of the machinery for doing it.

Finally, how do consumer-owned cooperative enterprises function on this proposition of elimination?

Fair examples are found in the great cooperative societies of England and Scotland.

The customary process in the formation of these enterprises is for the people of a community to join together and each to subscribe the equivalent of about $5 or $10 toward the capital for setting up a local retail cooperative store which sells both to the subscribing members and to the general public, but dividends based upon the profits of the store are paid to the subscribers not in proportion to their stock holdings but to their purchases at the store.

They start out then by not eliminating the retail store but by establishing a new one in the community and owning it themselves.

"COOPS" GO TO THE SOURCE.

Although many of these "coop" stores buy in part or mainly from ordinary jobbers, the majority have joined in setting up their own cooperative wholesale societies. Thus the consumers own the retail stores and the retail stores

own their own jobbers. Single ones of these wholesale "societies" do a business of several hundred million dollars a year, selling exclusively to the cooperative retail stores. So great are their operations that they also own several factories and on foreign continents own their own plantations and warehouses. Most of the wheat imported from Canada to Scotland is for the mills of the Scottish Cooperative Wholesale Society. The actual producers are the employees of the consumers in this enterprise.

But in these very facts of the way in which these consumer-owned institutions organize to perform their functions is the strongst demonstration that the wholesale and retail middlemen can not be eliminated. They may be owned, their profits may be turned back to the consumers or part of the consumers, but it is futile to start to "buy direct" or to cut out the jobber or retailer. And the wastes and losses also must be borne by the consumer, and it must not be overlooked that these "coop" stoes often fail or run into losses.

It remains to be considered whether in spite of the nonelimination of middlemen the cooperative society and the other recent types of distributors merit the measure of success they enjoy or whether they are psychological rather than economic phenomena, temporary and passing.

As to the cooperative store system it may be admitted that there is no saving in the machinery of distribution. Even to the matter of traveling salesmen representing the wholesale societies and calling upon the very retail stores which own them, all of the paraphernalia of the ordinary jobbing and retail system is duplicated. The wholesale societies find that it is necessary to explain their wares, answer questions and objections, and stimulate the managers of the retail stores to order more and new goods, and they maintain a large staff of travelers to accomplish these and other purposes. Advertising is similarly employed.

If they do all of the work of the conventional distributing system and eliminate none, where may they be expected to make savings for their consumers?

The second of our tests referred to saving unearned or unreasonable profits taken under the existing distributing system. Can the cooperative or other large retail institutions maintain themselves more efficiently and cheaply and thus make savings and earnings to the ultimate users of commodities?

ON A KEEN COMPETITIVE BASIS.

Or do the ordinary wholesalers and retailers extort exorbitant profits, offering a chance to puncture inflated prices on that account? They are on a keenly competitive basis. They compete with each other and also with the chain stores, manufacturers' stores, and department stores. If there were any general, willful overcharging it would seem as though it would immediately react to drive trade from those who indulged in it. Yet the vitality and persistence of the stores and jobbers of the old order baffle and annoy those who look for and seek their early removal. On the other hand, the growth of department stores, chain stores, and especially of the great "coop" systems of Europe and the popular impression in some quarters that they can and do undersell the small stores which obtain their goods through customary channels has caused them to be sometimes hailed as deliverers from the burdens of the high living costs which have grown so persistently higher and their commercial success is accepted as proof of fitness.

Yet if all the work of the old system remains to be done under the new, one must wonder whether it is because a hired manager of a store which he does not own is necessarily more capable or interested or efficient than the owner-proprietor whom he is intended to replace. Do people ordinarily work better for others than for themselves? Do they watch the small economies, have they the incentives for hard work, close supervision, and skillful management when others take the profits or stand the losses? Will the managers, foremen, and laborers work harder, produce more, or take less wages in a factory owned by absent consumers than in one of the ordinary variety?

We are back upon old questions here and argument will lead nowhere.

But under the title "Dissecting the Consumer's Dollar," we will examine the facts obtainable as to the comparative operating costs and methods of the newer distributors beside the old. We will take the consumer's dollar apart and see how much of it goes for the production of the goods, how much for the maker's expenses and profits, how much to the wholesaler, and what toll and profit the retailer takes.

Costs should be lower. There is a way of saving even though we can not eliminate any of the links in the distributing chain. It is not to discourage effort by showing what can not be done that this article is written, but to save misdirected effort and divert it into fruitful channels. This the subsequent article will also attempt.

Dissecting the Consumer's Dollar.

THE ONLY ROAD TO A LOWER COST OF LIVING—NO ROYAL ROAD TO LESSENING COSTS OF DISTRIBUTING GOODS.

[By William H. Ingersoll.]

Social unrest and the dissatisfaction of workers is due largely to the meager comfort with which people's earnings can be made to provide them. Labor wants a change in its status and in its participation in what is produced, but the most immediate desideratum is a better standard of living. This a true reduction in living costs would accomplish, and so it will be understood that when we refer to the cost of living herein we do not merely have in mind prices per se, but rather the cost of the essentials of wholesome living in relation to current wage scales, for it has been amply demonstrated since 1914 (if it needed demonstration) that wages themselves mean nothing except as measured in purchasing power to satisfy needs. And though we may have the wage earner primarily in mind in seeking to reduce living costs, the demand is equally strong from all elements of society and the consuming public at large would benefit by a change in the direction sought.

In a preceding article it was pointed out that roughly two-thirds of the cost of the things that we buy are absorbed in the processes of distributing those things after they are made, and that only approximately one-third went into the original cost of physical production.

Granting that costs are too high and that particularly it costs too much to distribute our goods, we then proceeded to examine the aims and efforts of those who would accomplish a reduction through the elimination of the middleman.

We studied the operations of those great retail institutions, the department store and the chain store, which aim and claim to eliminate the wholesaler. We found that instead of eliminating him they substituted a new one. The department store requires the establishment of wholesale warerooms by the manufacturer as well as a continuation of the regular wholesaler, while the chain stores set up their own central wholesale establishment, where goods are received from the factories and subdivided and distributed among their stores precisely in the manner followed by the customary wholesale house to its retail customers, involving all the labor of receiving goods in bulk, opening, subdividing, repacking, forwarding, and accounting, with resultant disadvantage and expense rather than gain.

In each chain store we found a substitute proprietor in the person of a hired manager, requiring additional safeguards and expense against dishonesty, indifference, and inefficiency.

Similarly, when the manufacturer essayed to establish his own retail stores and eliminate the retailer and wholesaler, we found that the retail stores still existed and that he had to have intermediate warerooms of his own to replace the wholesaler, involving all of the functions, operations, and labor of the ordinary distributing system.

Again, when we examined the great cooperative societies of Great Britain we found the same distributing elements, and we were forced to the conclusion that in the nature of the consumer's needs and his geographical distribution over wide areas the machinery of distribution require three indispensable elements, namely, the producer, the wholesaler, and the retailer, and that no effort to eliminate any of these units had succeeded in reducing the amount of labor to be performed, or in doing more than to change the name of the functionary performing it.

The mail-order system was found to be a retail institution combined with wholesale warerooms, and in some instances factories, and to save no labor, but rather to violate an elementary principle of transportation in that it involves the carrying of retail packages over long distances instead of carrying goods, in bulk to the community where they are to be consumed and there opening the factory cases and subdividing and delivering through a retail establishment to the consumer individuals.

It was left to us to inquire, therefore, in view of the fact that elimination of the middlemen could not be achieved, whether any of these methods of distribution succeeded in performing the inevitable labors at a lower expense or in relieving the consumer of paying exorbitant or unearned profits, and whether in the event that these hopes failed there was any other direction in which we might look for relief from the high costs which are admitted to be greater than they should be.

In our preceding article it was set forth that three, and only three, possible ways of saving on distributing costs lay before us, viz, (*a*) eliminating useless labor; (*b*) eliminating unreasonable or unearned profit; (*c*) increasing the efficiency of our distributors.

There is no opportunity for saving in the motions, processes, or labor of the producer-wholesaler-retailer system without substituting more expensive methods. If further demonstration of this were needed it might be found in the relative prices of articles sold and delivered by the manufacturers through direct factory agents, as in the case of typewriters, adding machines, cash registers, sewing machines, and a host of other things sold by the manufacturers' organizations without the intervention of the wholesaler or retailer in the ordinary form, and the prices of which to the consumer are approximately five times the cost of production instead of the customary three. One other observation is in order here, i. e., that when we discuss the question of eliminating middlemen we have in mind that the numerous speculators and nonproductive meddlers in some lines of trade have not entered into our consideration and are not to be recognized as performing the legitimate, necessary functions of the wholesaler and retailer, though in some trades it is sometimes permissible to subdivide the functions of these latter and add a link.

It is commonly supposed that large businesses operate more economically than small ones, and there is a popular impression therefore that the large department stores, the chain stores, the mail-order houses, and the great cooperative enterprises of Europe make savings which they can pass on to consumers, or that they work on a smaller margin of profit and give better values.

As to operating costs in point of fact, it is found that the large stores are under greater proportionate expense than small ones, as will be shown in a moment.

The assumption to the contrary is a natural one until a fundamental distinction in the character of the functions of distribution as contrasted with those of manufacturing is recognized.

It is true that within certain limits production can be more economically conducted on a large scale than on a small one.

MUST DEAL WITH HUMAN NATURE.

But manufacture is a matter of materials, machinery, labor organization, and management concentrated in one unit under a single control. It is done in one place. When we come to distribute the manufactured product, we deal not with metals, machinery, and organization, but with the variable quantity, human nature. We must inform, educate, and persuade thousands or millions of people of different temperament, experience, purchasing power, viewpoint, and needs, scattered across a continent to adopt our new invention, to discard their old habits, to drop their prejudices, to accept our product instead of some other. We must deliver the individual's retail requirements, not the factory's wholesale output.

This can best be done by widely separated efforts distributed over each small area as the population is grouped. Thus it tends to keep stores small and situated close to the consumers. The retailer, the neighborhood store, knowing intimately the local needs and peculiarities, selects suitable goods with greater precision has access to the people of the vicinity more often, and can get into closer touch with the consumer and show the new products, explain them, and make sales with less expenditure for advertising, delivery systems, etc., than the large store further away. His show window is a constant medium of communication. He buys closer according to the local preferences, carries smaller stocks, and suffers smaller losses through left-over and mark-down merchandise. Hence, the undiscriminating supposition that because large industrial units are economical the same will be true of merchandising establishments, is unwarranted and is disproved by an examination of their ratio of operating expenses.

This explains the tenacity with which smaller stores hold out and do the bulk of the country's business, both in the great cities and smaller towns. They are capable of rendering service both from the standpoint of convenience and values. Many other factors enter into the situation, such as the expertness of the specialist who devotes himself closely to one line of business and one community instead of striving to master many with the help of employees, as does the department store; and it has not the "overhead" expense of a coordinating organization to keep track of many departments, protect against shoplifting, dishonest clerks, managers, buyers, etc.

It is not to be inferred that the department store does not serve a useful purpose in its own sphere. We are considering only its ability to reduce living costs as indicated by its operating expenses compared with those of the smaller store. Since it does not save work, we are striving to find out if it can save in the performance of the work.

GETTING DOWN TO FIGURES.

Let us now refer to figures.

While it had long been common knowledge among business men that the cost of doing business of the large stores was heavier than that of the small ones, as evidenced by their buyers who argued among other reasons that they must have lower prices on their purchases because their expenses demanded it, there are available the results of several extensive researches into the subject.

On account of the abnormal conditions obtaining since the beginning of the European war in 1914 we will confine our attention to figures gathered before that time.

In his book, Keeping Up With Rising Costs, Walter Sammons, of System Magazine, publishes extensive findings covering the years 1890 to 1913. Typical of general conditions are those pertaining to three stores of different sizes.

One is a large department store doing a business of $17,000,000 a year. Another is an ordinary dry goods store with sales of $150,000, and the third a small store selling only $25,000 a year.

The chart shows that throughout the period the operations of the department store cost about 10 per cent more of the money it took in than did those of the two smaller stores based upon theirs.

The figures are a composite result obtained by a study of nearly a thousand stores in all sections. It shows that the percentage of the operating expenses in proportion to the business done is higher in the large department store than in any other retail store save only the jewelry store dealing in luxuries, which is about the same as the department store. The jewelry department in the latter, however, would be found to be about 10 per cent higher still.

Chain stores are not considered in this diagram, but it is generally recognized in business circles that their expenses are higher than those of the department store.

MAIL-ORDER COSTS AN ERROR.

The mail-order expenses which are shown in the diagram to be the lowest of all, are admittedly in error, the explanation, I understand, being that they were based upon insufficient data. Dr. Paul H. Nystrom of the University of Wisconsin, in an investigation carried on about the same time, found the mail-order expenses to be about 22 per cent, to which must be added the cost of transportation of the goods to the consumer to make them comparable to the figures of the retail store which delivers the goods locally. This would make the expense of the mail-order business 10 per cent or more higher than shown in the diagram, or about 25 per cent. Dr. Nystrom's research in other particulars generally confirmed that of Mr. Sammons, and his book The Economics of Retailing throws other lights on the subject.

Another country-wide investigation is that of Mr. C. C. Parlin, of the Curtis Publishing Co., and his findings are partly published in his book Advertising as a Business Force. They substantially agree with those of Mr. Sammons.

To offset the higher cost of doing business of the large retail institutions, it must be borne in mind that they buy at lower prices than the smaller stores by about 15 per cent, based on their cost prices. This about balances their higher operating expenses, which are figured on their selling prices and permits them to compete in values. Whether they rightfully earn the price advantage they enjoy is beside the question before us.

To those to whom the proof of the pudding is in the eating and who have experienced undeniable bargains from the big stores it should be explained that

frequently they pick up large lots of goods at genuine savings. This is part of their service to manufacturers, wholesalers, and the public. Also, they have more "left overs" to be sacrificed. Again, some of them occasionally sell well-known articles at an actual loss in order to draw trade, but in the long run they must make money and they must recoup themselves for their sacrifices and cover their losses on the ordinary run of their merchandise, which on account of their high expenses must be sold proportionately high.

In a long series of purchases extending over a period of years and made from big stores and little stores in the same vicinity at the same time for the purpose of examining comparative values in identical or nearly identical goods, no conclusive advantage was found on either side. Sometimes and on some classes of goods the larger stores appeared the cheaper. On others the small stores had the advantage. Generally speaking, country stores were cheaper than big city stores. The same holds true for the chain store and mail-order tests. In range of variety the large stores excel and likewise in style merchandise they have the later fashions. But in the same goods for equal quality in other respects they are higher priced. The small store excels in convenience of location, in personal service, in promptness of delivery, and extension of sound credit.

From all of the foregoing we may conclude that bigness does not mean economy and that neither in the attempt to eliminate labor or perform the labor at lower operating expense do the large distributing institutions achieve results.

As to cooperative stores, there are no large successes in the United States, and my data regarding those in Europe so far as their expenses are concerned is at present too meager and inconclusive to mean much. Having visited them, however, and having made comparative purchases from them and from neighboring independent stores without apparent differences in values, and knowing that they save no labor and do not appear to be more capably managed and that they suffer several material disadvantages in comparison with the independent stores, I am forced to conclude that they accomplish no more in economy of operating expense than do the other efforts at "eliminating the middleman."

This brings us to a consideration of whether there is a prospect of saving unearned or exorbitant profits, since the saving of labor and expense has disappeared. To judge of this we must have before us some approximation of the profits absorbed in the existing system of distribution from maker to wholesaler, wholesaler to retailer, and retailer to consumer.

While expenses and profits vary in the different lines of trade, and different sections of the country, and in different stores in the same kind of business, and in the same store from season to season, it is possible to approximate the general percentages over yearly periods and make a composite covering principal lines of business.

ALL SORTS OF COSTS TRACED.

Figure 3 represents diagrammatically the results of an inquiry made in the early part of 1916. The products of 40 typical factories producing foods, drugs, hardware supplies, fuel, house furnishings, clothing, jewelry, shoes, dry goods, notions, automobile supplies, and several other lines were traced from maker to user through large and small stores widely scattered. The observations were reduced to composite averages. The effects of the European war in the form of increased operating costs are shown in the figures, yet there is not a wide discrepancy between the retailers' expense of doing business at this time and at the time of Mr. Sammons's investigation. The consumer's dollar thus dissected reveals unreasonably heavy expenses in distribution, but the profits of the middlemen are not an unreasonably heavy burden upon the consumer.

The retailing profit of 6 cents remaining after the operating expense of 28 cents is deducted from the gross profit of 34 cents out of each dollar taken in would pay a return of $1,800 a year on the ordinary store's volume of $30,000 sales. This is slightly less than $35 per week, and, considering a usual investment of from $5,000 to $10,000 in the business and the risks taken, it is a modest reward for the services to the community, and with interest on investment subtracted amounts really to less than $30 per week, which is less than the skilled laborer frequently receives for shorter hours, less anxiety, and without risking his own money in the enterprise.

For purposes of simplification, fractions of cents were discarded and the nearest whole number taken. Thus the wholesaler's profit shown as 3 cents really figured to be only a trifle over 2½ cents. But taking it at 3 cents and

adding the retailer's 6 cents, we have the total profit of those two middlemen as 9 cents out of the consumer's dollar.

The most then that any scheme of saving middlemen's profits could hope to attain would be to save a part of this 9 cents. Interest on investment and salaries of managers in place of the proprietor's profits would necessarily reduce the amount that could be saved. Only a narrow saving could possibly be looked for.

But, in order to hope for any saving, it would be necessary to conduct the distributing operation as expertly as they are now performed and without increase of operating expenses. If the ambition contemplated benefits to any large proportion of the people, it would require that the present proprietors be induced to work for others for a smaller remuneration than they now receive as owners, or to supply a new school of managers to take their places. Neither of these alternatives is immediately probable.

If, for a moment, we indulge in a consideration of a vast scheme of collective ownership by consumers, including retailing in all lines of business, wholesaling, manufacturing, growing, and mining, we are confronted with problems of organization and management greater than those of government.

NOT EVEN A RIPPLE IN TRADE.

The cooperative movements of Great Britain, great as they are and involving hundreds of millions of business annually, are not large enough to have made a ripple on the surface of Britain's trade. The ordinary retailer and wholesaler still do business without concern.

Successful as the "coops" are generally regarded, they have made no general change in conditions, and it is seriously to be doubted whether they have conveyed any real economic benefits. Side by side the older wholesale and retail houses successfully compete with them for trade, smaller though they are and without the psychological advantage of having the consumers as members or shareholders with all the prejudice that men hold in favor of things to which they "belong" and which belong to them.

To extend the cooperative system to a point where it became a material factor in the situation would bring such complication in organization and management that men could hardly cope efficiently with them. We would have business on a scale analogous to that which Governments have had to carry on during war time in making, buying, and distributing munitions and clothing and food supplies. The limitations of human capacity would be felt, waste, lost motion, high costs, politics, favoritism, indolence, jealousy, bureaucracy, if not graft, would creep in. Is it not better to divide the job up into small lots and leave it to men according to their initiative and ability to handle it on their own responsibility under competitive conditions and within limits that they can comprehend and grapple with, instead of lumping it into so great a task that the magnitude surpasses even imagination?

The socialist will answer one way, the democrat the other.. But I submit that we have seen that bigness has resulted so far in increased operating expense and that except for inside prices of doubtful validity, it could not compete. Why then extend it? I further submit that, so long as human nature remains as it is, and so long as we employ the principle of private property and capital at all, that moderate-sized units closely and competently managed under the customary incentives of the profits of the competitive system, will excel larger units in economy of operation if artificial advantages to the latter are withheld. And the limits of size in the field of distrbution are much sooner reached than in the industrial field.

We have found no way of eliminating the labor of distribution. Our experiments in new forms of distributors have not disclosed economies in the performance of the work. We have not discovered an exorbitant profit, absorbed by the "grasping middleman." Personally, we know the dealer to be much like other men, we know him as a neighbor and citizen, and we know that usually he works hard without getting rich.

THE REAL WAY OUT.

Have we followed this long reasoning then only to end in discouragement? No! There is a way, not a royal, easy road to lower living costs, not a simple change of form and names and ownership in the elements of the distributing chain to bring a wondrous reformation, but a reasonable way to secure benefits in return for patient, intelligent effort toward our goal.

Let us give democracy a real trial.

Let us improve the system that we have, instead of looking at the green fields far away. How?

The one unreasonable condition that our analysis has disclosed is the expense of distribution, not the multiplicity of unproductive functionaries that may easily be eliminated, nor the burdensome profits so often suspected. But our distributors do spend too much to do the job.

Fifty cents out of each dollar goes for the manufacturers and middlemen's selling expense.

Our next suspicion might be that while we can not dispense with the wholesaler or retailer, that there may be too many of one or both to be supported economically in the field. While I believe that there would be a small net gain if the number were reduced by half or two-thirds with sturdier size for the remainder, there has not been an advantage with size or concentration of trade to warrant hope on this ground alone.

But a saving of expense could be realized by greater skill and efficiency on the part of the distributors. We suffer from too great an investment in stagnant stocks.

Supposing for simple illustration, that a dealer carries a stock worth $30,000 at selling prices and that this allows him a gross profit of 33⅓ per cent of his sales, thus making the cost of his stock $20,000. Supposing further that he sells out his stock once a year, i. e., he does a business of $30,000 at a gross profit of 33⅓ per cent or $10,000. Assume that his expenses are 28 per cent or $8,400. He would then make a net profit of 5⅓ per cent on his sales or $1,600. This based upon his investment in stock would be 8 per cent on his capital employed. On this basis he could not safely do business on less than 33⅓ per cent gross profit, which means 50 per cent added to what he pays for his goods as the consumer's price. Indeed, on this basis he would be better off to invest his money in Liberty bonds and hire out to work on a salary without risk to himself. Yet this would be a great burden on the consumer. To have his goods marked up 50 per cent on the last distributing operation alone is "too, too hard."

Supposing now that a new dealer buys out this store and by more capable handling, without investing any more in stock, is able to sell out three times a year. Figure the results. Allowing for the moment that his expenses remain the same, he would have $90,000 of sales at 33⅓ per cent gross profit or $30,000 and his net profit would be $4,800 or 24 per cent on his capital invested. Again, if he could sell out six times a year on the same investment in stock, he would net 48 per cent on capital invested. On this basis even though his selling expense remained at 28 per cent, he could somewhat reduce his prices to consumers with safety.

But let us see if his expense percentage reasonably need remain at 28 per cent. If we analyze his expenses we find that they fall into two classes, one depending upon the length of time his goods remain in stock and the other depending upon the labor expense of handling and selling. The first then relates to the rate of selling out—in trade parlance called "turnover." It applies to such items as rent. The longer the goods remain in stock the longer the dealer must charge them with rent expense for shelf room. The second relates to the amount of goods handled irrespective of the time occupied in the process, though there need not be a direct variation of labor expense in proportion to volume. It applies to such items as advertising and wages paid to clerks.

Taking the one turnover a year if we examine the dealer's expenses they would be found to be somewhat like this:

One turnover.

	Per cent.	
Time expenses:		
Rent	6	
Interest	6	
Heat, light, and insurance, etc	2	
		14
Labor expenses:		
Buying and traveling	1	
Clerk hire	8	
Advertising	2	
Expressage, delivery, and supplies	1	
Breakage, loss, obsolescence, miscellaneous	2	
		14
		28

Suppose now, that we see what results from speeding up the turnover so that the same store with the s[illegible] Its time expenses amounting to half its total expense are immediately divided by six. As long as the stock is held down there will be no more rent or other "time" expenses, so that an operating charge of 14 per cent is at once reduced to 2⅓ per cent.

As to labor expenses, the amounts will surely increase with more goods to be handled, but the percentages should not increase, but on the other hand should tend to show a reduction. It should not, for instance, require six times as many clerks to handle the larger business in the same size store and stock.

But assume that the labor expense remains the same. The result would then be:

Six turnovers.

	Per cent.
Time expenses:	
Rent	1
Interest	1
Heat, light, and insurance, etc	⅓
	2⅓
Labor expenses, same as before	14
	[1] 16⅓

Here is a saving of 11⅔ per cent, or more than the combined net profit of the retailer and jobber as shown in figure 3, only a part of which could be saved under the most favorable circumstances. If we were willing to assume that the labor expense might come down to 10 per cent, we would gain 4 per cent and cut the total by more than half.

Now, our illustration is an elementary one, but it goes to the essence of the distributing problem in that it attacks the admittedly high operating expenses of distributors, instead of assuming that the high prices are due to unrighteous profits which might be conserved for the consumer by returning them to him through some cooperative ownership plan. High prices are due to waste and inefficiency, not to graft or greed.

MUST HAVE EXPERT MANAGERS.

It is in this that the "coops" are barking up the wrong tree. Unless they can supply a host of more expert managers there can be no marked gain, no matter who owns the stores or pockets the profits. Only skill can overcome the waste.

As a practical matter the largest factor in the high expense percentage of operating stores is the slow turnover of stocks. The fixed expenses have to be charged against too small a volume of business. The country pays interest and operating charges on too great an investment in stocks in proportion to the business done. The solution lies in cutting down the stocks without reducing the amount of sales—doing the business on a smaller investment. Increasing the size of the business does not reduce expense percentages if the stocks increase proportionately. Size alone only makes for complication and lost motion as is shown by the higher expense of the department store compared to the smaller store. Quick turnover means lower expense, as is demonstrated by the smaller expense of the grocery store with its quick selling stock as contrasted with the jewelry store. (See Fig. 2.) The grocer is not a better merchant than the jeweler, but his goods sell faster in proportion to investment. And all could cut down their stock investments without curtailing volume of sales if they were better sales "engineers."

In my own experience, I have seen a moderately successful drug store that was turning its stock barely twice a year, come under new management and do five times the volume of business on half the stock—in other words, turn its stock ten times instead of twice. It was able to give far better values to its customers and yet make far more itself.

MAKE SLOTHFUL DOLLARS WORK.

The secret is to make slothful dollars in idle stocks get busy, start rolling and yield a return.

[1] 16⅓ per cent instead of 28 per cent.

While our illustration of multiplying turnover by six may be a bit too ambitious for a general program, it is not so far out of the way as to miss the point. If goods cost less through true savings, there would be purchasing power to absorb more of them. More goods would be sold. More, therefore, would be produced. Employment and earnings would be greater and also would buy more per dollar.

How then can this better standard of distribution be reached. Only through the gradual and painful process of research and education. Society now provides no means by which skill and training can be acquired on the part of those who do the work which consumes more than half of all that our money goes to purchase. Great study and preparation goes into production. Technical and engineering and mining and agricultural schools give the result of research, experience and correlation for the benefit of those taking up the work of production. And society in return gets the benefit of skilled operations—at least, it is beginning to.

But the careless assumption prevails that distribution can look after itself—that anybody can be an acceptable storekeeper, salesman, wholesaler, or advertising man, and that the "law of supply and demand" takes care of goods after they are made. And we pay the price of our carelessness by getting only a part of what we should get for our money.

Think of what the skilled distributor should know—the subjects that he is called upon to grapple with, without even realizing that he is working in a field that might have a scientific basis. To get faster turnovers, he must do his buying more exactly in accordance with the needs of his market, and must not stock up for periods too long in advance. Quantity discounts, which tempt the merchant to overbuy, and which favor big stores with their high expenses, and further the monopolistic tendency, should be restricted to a scientific scale which measures the true economy of the quantity purchased to the producer.

To buy more exactly, the dealer must keep accurate records of past requirements and sales; he must know his market, and to this end must carry on more or less continuous research into the conditions and needs of his community. The average merchant to-day keeps only the most rudimentary reports, and has no true accounting system. He is unschooled in statistics or in the compilation or interpretation of reports. He knows nothing of research or how to conduct it. He has no organized means of knowing what the market affords. He barely knows of the law of turnover, and rarely knows how to apply it. Hence, he doesn't focus his aims in the most economical direction. He is not schooled in the art of buying. For precision and economy he should understand how to keep cost records, stock records, as well as classified expense accounts. He should know something of the principles of store arrangement and display.

In order to move his stock quickly after it has been purchased and received, he should understand the art of letting people know what he has and the merits of it. His service to the community should be exploited. He needs to be a teacher in order that his clerks and assistants may be drilled in the purposes of the store and in understanding and being able to explain its wares. In order to deal with the public and his employees he must know something of human nature and its organization. These subjects involve some training in applied psychology and in art, so that he may arrange his store and display his goods attractively, and may select colors and designs in his merchandise intelligently, and in order that he may prepare effective news items of what he has to offer to the local public.

Again, he needs a technical training in his special line. The shoe merchant should know leather and the processes of manufacture and styles. The grocer should know something of the food qualities of his wares, and the processes of preparation, in order to advise according to the need of his customers. The jeweler should know something of design, proportion, art, and color, instead of graduating into a merchandising career by way of the watchmaker's bench. Then his goods will be selected more intelligently, will sell more readily, and he will be able to recommend goods of appropriate size, design, form, and color, according to the individual need of the purchaser.

When our merchants are more thoroughly qualified in the fundamental principles of merchandising, when they understand statistical accounting, cost keeping, stock keeping, buying, practical psychology, organization, the elements of art, and the other subjects, a mastery of which would qualify them in their work, a large part of the waste in distribution will disappear. The day is coming when a man will be no more permitted to set up in the profession of dis-

tribution without first demonstrating his qualifications to society, than the druggist is now permitted to dispense drugs, the doctor to practice medicine, the lawyer to practice law, or the engineer to put "M. E." after his name.

In the meantime, governmental and other agencies can do much toward spreading some rudimentary knowledge of value in this coming profession among those already in it, just as our agricultural schools have helped the present generation of farmers. Better business record keeping can be spread. Until such a time as a more capable school of distributors is available, it will accomplish nothing to rail at the middleman, who is doing the best that he can under the conditions that society has provided, or through cooperative or other movements to set up new stores under the charge, as usually happens, of those who are even less experienced and less qualified than the present distributors. And when the same principles of improvement are applied not only to the retailer but to the wholesaler as well, and to the marketing departments of the manufacturers, a truly great economy will be found possible.

I submit, therefore, that this is the only road to lower costs; that we can not eliminate the middle man; that high prices are not due to his extravagant profits but to the undeveloped standards of operation and that no device save that of education will overcome this fundamental deficiency.

Mr. INGERSOLL. I thank you very much for the opportunity of appearing and making these observations.

Representative SUMNERS (presiding). The commission is very much obliged to you, Mr. Ingersoll, for your very interesting discussion.

The commission will stand adjourned subject to the call of the chairman.

(Whereupon, at 5 o'clock and 45 minutes p. m., the commission adjourned, subject to the call of the chairman.)

AGRICULTURAL INQUIRY.

WEDNESDAY, NOVEMBER 16, 1921.

CONGRESS OF THE UNITED STATES,
JOINT COMMISSION OF AGRICULTURAL INQUIRY,
Washington, D. C.

The joint commission met at 10 o'clock a. m., pursuant to call of the chairman, room 70, the Capitol, Hon. Sydney Anderson (chairman) presiding.

The CHAIRMAN. The commission will hear this morning Mr. Yohe, who is connected with the Department of Agriculture, in the warehouse section.

Mr. Yohe, will you give your full name, and your position in the Department of Agriculture to the reporter, and for the benefit of the commission.

STATEMENT OF MR. H. S. YOHE, IN CHARGE OF THE WAREHOUSE SECTION, DEPARTMENT OF AGRICULTURE.

Mr. YOHE. My name is H. S. Yohe. I am in charge of the warehouse section of the Department of Agriculture; that is, the section that has to do with the administration of the United States warehouse act.

The CHAIRMAN. Will you tell us now, in a general way, what the provisions of the warehouse act are; how it is being administered; the number of warehouses that have come under it, and so forth?

Mr. YOHE. With respect to the warehouse act, I want to state, first of all, that it is a permissive statute. That is, there is nothing compulsory about any warehouseman becoming licensed. It relates to only four products, cotton, wool, tobacco, and grain.

Under the act, and the interpretations that have been placed upon it by the solicitors of the department, they include under grain, flaxseed. With respect to the provisions of the act——

Senator HARRISON. You say you include under the provisions of the act, flaxseed. That is not the only thing you include; you take in other grains, such wheat and other grains?

Mr. YOHE. Yes; we take in wheat, corn, barley, rye, oats, and other grains, but there was some question as to whether or not flaxseed is a grain.

Senator HARRISON. Oh, yes.

Mr. YOHE. The warehouse act is an attempt to create a system of licensed and bonded warehouses. One of its prime objects is to provide for a uniform warehouse receipt covering particular agricultural products. Standardization of the receipt is one of the things which we aim to enforce, and it is very seldom that we permit a warehouseman to deviate from the form which we have prescribed for the receipt, and if he desires to deviate from that form, he will have to show to the department why the particular form which we have prescribed will not quite meet his peculiar conditions.

The act itself provides certain facts which must be stated on the face of the receipt. I did not bring a copy of the act with me, but roughly, I can tell you what those provisions are.

First of all, the name of the warehouseman; whether or not the warehouseman is incorporated, and if so, in what State, under what laws; the amount of capital stock of the corporation; the number or marks of the packages or bales, or whatever it may be, represented by the particular receipt; whether or not the product is graded; the weight of the paticular product; the charges for service; whether the warehouseman has an interest in the products, and so forth.

With respect to the matter of grading, the act does not make it compulsory that the grade be stated, except in the case of fungible products. It is worded to the effect that the grade shall be stated, unless the depositor requests that it be not stated. In other words. the warehouseman must make provision for the grading of the particular commodity, unless the customer says that he does not want it graded. In that connection we find, when we come to deal with large warehousemen—that is, those who run their warehouses on a large scale—there has been very little, if any, provision made for a receipt showing the grade of products. Very often we find a receipt which merely states, "Received from Mr. Blank one bale of cotton," and sometimes not even giving the weight.

Representative TEN EYCK. Have you representatives located at these different licensed warehouses to look after these matters?

Mr. YOHE. No, sir.

Representative TEN EYCK. Who, then, is responsible for the carrying out of the rules and regulations of the department?

Mr. YOHE. The man who has charge of the warehouse and conducts the business is responsible to the Federal Government.

Senator HARRISON. Does he give a bond, or anything, for the performance of his duties there?

Mr. YOHE. Yes, sir.

Representative TEN EYCK. If a commodity that is placed in a warehouse is graded, does that mean that the depositor receives a receipt which will be accepted as collateral at a bank and that paper be rediscounted in a Federal reserve bank?

Mr. YOHE. It does not necessarily mean that. In many instances it does mean that, but it would depend on the attitude assumed by the officers of the Federal reserve bank or in the regional banks.

In Atlanta, for instance, they have gotten to the place, or rather we have gotten them to the place, where they see the difference between this receipt and the ordinary warehouse receipt. In other communities we have not yet carried the education so far as to convince them of the value of this sort of receipt.

Representative TEN EYCK. Do you not think that it is essential that when a farmer puts his grain in a warehouse and receives a receipt therefor that that receipt should be accepted as collateral according to the value of the grades as shown by the certificate?

Mr. YOHE. It seems to me that it is essential, if the act is going to be put across properly.

Representative TEN EYCK. In other words, if it is going to be successful, that is one of the necessities?

Mr. YOHE. That is one feature: If we can get the 12 regional banks to recognize that a receipt issued under a United States license is superior to a receipt that may be issued under a license by some

State or issued by an unlicensed warehouseman, we will succeed in making the warehouse act more valuable.

Representative TEN EYCK. Will you kindly explain what their objection to it is?

Mr. YOHE. I don't know that I can say just what their objection is. We have tried again and again to find out. The objections sometimes made by the banks are inconsistent. For instance, here is a bank that takes the paper of a concern that holds large amounts of grain in connection with a mill. A man may be a miller, and he has large amounts of grain in storage, and he will issue a receipt to himself, and then he will take that receipt and present it to his bank as collateral, and in some sections of the country the bank will accept it and in some sections they will not accept it. They say, "No; we can not accept this; you are not a warehouseman; your grain ought to be in the hands of a disinterested party." We hold, however, that the fact that the Government subjects that man to inspection at least four times a year and requires a bond and a statement of his assets and liabilities negatives their argument, and that his products and receipts are subject to supervision, even though he may not be disinterested.

Now, another inconsistency in their action lies in this, that in ordinary times, and even now, they will take a receipt or a financial statement from a miller, which he will furnish, which shows that the bulk of his assets may be composed of grain which he owns, and they will take that financial statement and give him a large amount of credit on it. But that kind of a warehouseman is entirely independent of supervision; the Government has no hold on him whatever.

The CHAIRMAN. As a general proposition, however, you would say it is sound, I should imagine, to provide that the receipt should be issued by some one other than the person who owns the grain.

Mr. YOHE. I would not say that that should be made a matter of legislation. I think that ordinarily we will all grant that a man who has no personal interest in the particular commodity might make a more desirable warehouseman. But that does not necessarily follow. If you take a man who has the commodity, that man will have an interest in the commodity, and you can subject him to proper supervision and make him submit proper reports, and you can go along and inspect his warehouse and his commodities and see that his stocks check up with the receipts. That man is then constantly being watched, just the same as the national banks are being watched under the national-bank system.

Representative FUNK. What is the requirement of the bond which he is required to give?

Mr. YOHE. The bond is nominal, and they vary in different cases. They range from $5,000 to $50,000. But, even though they give a bond, at the same time they have got to keep a certain amount of net assets.

Representative FUNK. I know, but one of the reasons why the banks refuse to accept these receipts is because of a lack of guaranty. It seems to me the bond should be sufficiently large to protect the banks, and the bond should be sufficiently large to protect the goods in storage.

Mr. YOHE. I think that would be prohibitive and end the whole business because of the large premium which he would be charged

on his bond. If the Government itself will get back of these bonds, it may be done, but that is the only way.

Senator ROBINSON. I take it that in no case is the warehouseman's bond even approximately as large as the amount of goods in storage at times?

Mr. YOHE. That is correct. For instance, take cotton, and we require a minimum of $5 a bale, with not less than $5,000 in any case, and a maximum of $50,000. Now, if you have a warehouseman who may have 50,000 bales of cotton in storage he puts up a bond of $50,000.

Senator ROBINSON. Whereas if you compelled him to put up a bond to the full value of the cotton held in storage it would require too heavy a premium?

Mr. YOHE. Yes, sir.

Senator CAPPER. The bond is an assurance that this amount or volume of commodity is in the hands of the warehouseman?

Mr. YOHE. Yes, sir.

Senator CAPPER. And that he will maintain it?

Mr. YOHE. Yes, sir.

Senator ROBINSON. I agree with the suggestion of the chairman, that the principle of making a loan to any individual upon collateral that is in and remains in the possession of that individual should be very carefully safeguarded before it is applied; otherwise it would create great loss. I am not sure that any system of inspection could protect against defalcation under such a system, presuming you do not have a disinterested bailee to start with. The business world never has proceeded on the theory that a man could issue a receipt to himself and then secure a loan on it, and if such method be adopted I think we should not be compelled to rely on inspections for protection, because we all realize the possibility of evading detection.

Representative FUNK. Could that not be met by a provision in the law which would prohibit any warehouseman from issuing receipts on commodities stored in his own warehouse?

Senator ROBINSON. I think it could be, and certainly it should be safeguarded in some way.

Representative TEN EYCK. I do not think he should be restricted to that extent. If the warehouseman has certain commodities in storage, and if he desires to borrow money on certain amounts of his products he could take out a bond to cover. If a person wishes to borrow on his own products in his own warehouse, have a provision that he must then take out a bond to cover.

Senator ROBINSON. If you do that, he could not secure a loan on it. because the premium would be so large it would make it impracticable.

Representative TEN EYCK. But, Senator, you do not understand me. Have the bond equal to the amount he desired to borrow himself and only as to the quantity of the products as set forth in the warehouse certificate.

Senator ROBINSON. I understand that.

Representative TEN EYCK. We do that every day in business.

Senator ROBINSON. The premium on his bond would be almost equal to his interest.

Representative TEN EYCK. The premium on those bonds is small.

Senator ROBINSON. But I do not believe that is a practical thing to do, because I think the premium on his bond would be almost equivalent to the interest charge, would it not?

Mr. YOHE. It might work out that large. The premium charged by bonding companies on that sort of bond is 1 per cent, I think, on the bond.

Senator HARRISON. Are any penalties imposed by the law for the giving of these receipts wrongfully; are there any conditions imposed by the act to prohibit it?

Mr. YOHE. There is only one penalty clause provided in the act, and that is a penalty against a man holding himself out as a licensed warehouseman when, as a matter of fact, he is not a licensed warehouseman, and against issuing fraudulent receipts. That penalty is a very small amount.

Senator ROBINSON. It would not apply to a man who issued a receipt to himself?

Mr. YOHE. Yes, sir.

Senator ROBINSON. How many licenses have been issued to warehousemen; have you gone over that?

Mr. YOHE. Yes, sir; I went over that the other day to some extent and issued a letter over the signature of Mr. Estabrook calling your attention to the progress made. If I had known I was coming to such a meeting as this I would have tried to be prepared.

Representative FUNK. What is the number?

Mr. YOHE. There are about 274 licensed cotton warehouses, 292 grain warehouses, 17 wool warehouses, and 2 tobacco warehouses.

Representative FUNK. What is the thing that causes these people to take out these licenses? What is the protection to them?

Mr. YOHE. In the case of almost any warehouseman it is a matter of business psychology; a matter of letting the depositors know that his warehouse is under the supervision of the Federal Government. He can advertise the fact and bring it to the attention of the public in practically the same manner as the national banks do when they stick up a sign saying "Under Federal supervision."

Senator ROBINSON. What is your opinion as to why so few persons have availed themselves of the provisions of that act?

Mr. YOHE. There are several reasons: First, is the fact that the act went into effect on June 1, 1916, shortly before we entered the war. During the war not much could be done. When they got to the point where they could function properly, there were a lot of preliminary things to be attended to. And during the war there was practically nothing that could be done. In the grain field that was particularly true, because the Food Administration had everything licensed, and they were requiring men to submit reports very frequently. And that, itself, has worked very much against the grain warehousemen availing themselves of the provisions of the act since the war. We are running into men all the time who say, "We have had a dose of this thing during the war, and we do not want any more of it." That is the way it is working out.

Now, it is not quite fair to consider this proposition on the basis of the number of licensed warehouses. Take the number of licensed cotton warehouses. Taking into consideration the capacities of these warehouses and the annual cotton crop, and the amount that is usually in storage at any one time, we have provision for about one-third of the crop.

Senator ROBINSON. So that as to cotton, particularly, the warehouse act is being availed of?

Mr. YOHE. Very much so. And that leads me to this: I want to point out the fact that the warehousemen are availing themselves of it more and more. For instance, up to April of this year we had 232 cotton warehouses licensed with a storage capacity of 430,000 bales. There was practically nothing done during May, but in the last five and a half months that number has practically trebled as far as cotton-storage capacity goes. That means that we are getting under the system the large warehouses; the warehouses with large storage capacity.

The Memphis Terminal Corporation came in the other day, and some other large companies have come in lately.

Senator ROBINSON. Does a uniform system of fixing, levying, and collecting warehouse charges prevail; or is that left to the option of the individual warehouse?

Mr. YOHE. It is left largely to the option of the warehouse, and I think rightly so, because conditions vary in different sections of the country. As a matter of fact, however, the charges are subject to the supervision of the Secretary. If we find a man is charging an unreasonable rate, we can order a refund.

Senator ROBINSON. Have any cases been brought to the attention of the department where the charges have been excessive for this service?

Mr. YOHE. No, sir.

Senator ROBINSON. There has been no trouble in that direction, then?

Mr. YOHE. No, sir.

Senator ROBINSON. Can you state approximately the extent storage of cotton occurs in these various warehouses?

Mr. YOHE. That varies very much in the different localities and for different reasons, running all the way from 25 cents a month——

Senator ROBINSON (interposing). Per bale?

Mr. YOHE. Per bale, as I recall, to 90 cents or $1, depending upon the cotton and the section.

I noticed that around Galveston the charges are very reasonable, and the same is true in Oklahoma in the compress warehouses. They charge 25 cents the first month and 1 cent a day thereafter.

When you go into the Southeastern States it is very heavy, depending on whether it is sea-island cotton or upland cotton, or whatever the cotton may be.

Senator ROBINSON. What is the extent to which the grain people have availed themselves of the provisions of this act?

Mr. YOHE. The grain people, as I indicated awhile ago, got what they thought was a "bitter pill" in the case of the Food Administration during the war, and they are very slow to come in. But here is a case, I think, of conditions being controlled by middlemen—bankers—and it is a case of getting out and selling on the markets these warehouse receipts as compared with the other warehouse receipts.

For instance, I can show you very forcibly what a proper selling campaign in that situation means. Last winter we sent one of our men throughout the Northwest. There was not a single warehouse licensed in the Northwest, and this man centered his efforts in Portland and Seattle, but principally in Portland, as that city controls a very large output of grain at that port. This man was out for two months and made his campaign, and within the last two months,

beginning about the 1st of September, we have been licensing warehouses in that territory. In these two months we have licensed, roughly speaking, about 200 warehouses. One concern came in with 68, another one with 18, another one with 10, and another one with 12, as I recall it. And there are a great many more of them waiting for the Federal reserve banks to say, "This act has done so and so for a warehouseman; we are satisfied it is a good thing and we want you to come in."

Senator ROBINSON. You say the warehouses are having difficulty in getting their paper recognized by the Federal reserve banks.

Mr. YOHE. Yes; in some regions they do and in others not, where the elevators are controlled by the mills and they store their own grain. There is no particular difficulty for outside men who place their grain in those mill elevators and who have a receipt. But where the warehouseman stores his own product and issues a receipt to himself, there is sometimes some difficulty.

Representative SUMNERS. Will you please make that a little plainer; are there two corporations in those cases?

Mr. YOHE. No, sir.

Representative SUMNERS. Is the warehouse separately incorporated?

Mr. YOHE. No, sir.

Representative SUMNERS. Do you mean the man that owns the mill owns the elevator also?

Mr. YOHE. Yes, sir.

Representative SUMNERS. And he issues a receipt to himself?

Mr. YOHE. Yes, sir.

Representative SUMNERS. That is nothing more, then, than a chattel mortgage on a commodity, is it?

Mr. YOHE. I don't know that I should exactly call it a chattel mortgage.

Representative TEN EYCK. The certification that the property is there.

Mr. YOHE. Yes, sir.

Representative SUMNERS. How can a man issue a receipt to himself?

Senator ROBINSON. It will not have very great value in commercial transactions.

Representative SUMNERS. How can a man issue a receipt to himself? There is no change in the custody of the property and no change in the title; it is merely a scrap of paper.

Mr. YOHE. It is a receipt that shows that the product is there in the warehouse; it shows the volume of it, the grade of it, etc.

Senator ROBINSON. The value of a receipt is that the product hypothecated, or upon which it is predicated, if it is of any value, in the hands of a disinterested third person; that is the basis on which it is used as collateral; that he is a trustee. I did not expect to discuss that further now, but as I understood the chairman to suggest, I can see how a man would hesitate to loan money to one on a receipt which has been issued to himself.

Mr. YOHE. Certainly.

Representative TEN EYCK. Who are the people that generally build these warehouses and invest their money in them; are they not the people who really want to use them for their own purposes?

Mr. YOHE. Very often that is the case.

Representative TEN EYCK. Now, if they could not utilize their own warehouses for themselves and get all the facilities out of them that they desired, and that other people get out of their warehouses, would they build them at all?

Mr. YOHE. That becomes questionable.

Representative TEN EYCK. If that is the case, then they ought to have all the use of them that the other individuals have, properly safeguarded, of course.

Senator ROBINSON. Well, that could not be done; that principle could not be applied to loans and business generally throughout the business world. It never has been recognized as a safe practice to do that.

Representative FUNK. No bank would loan me money on my Liberty bonds and let me keep the bonds.

Senator ROBINSON. No; that is the point. No matter how many inspections nor how frequent the inspections were, there would be plenty of opportunity between inspections that they could be disposed of.

Representative TEN EYCK. But, on the other hand, the farmer will not get warehouse accommodations if the individual who builds them does not get equal benefit, because he will not build and the Government will have to build them. We have got to find some way so that the owner can get the fullest utilization out of his own warehouses.

Senator ROBINSON. I am heartily in sympathy with providing warehouse facilities and doing it for the benefit of those who will avail themselves of them, but I am not willing to recognize the principle that a man can loan money to himself and keep possession of the collateral on which the loan is made.

Representative TEN EYCK. No; I think you are right, Senator. If properly safeguarded, and the Government agent certifies that the commodity is there, the bank will know that the commodity is in the warehouse before it is used as collateral. I think that a man ought to have the right to use that which he owns, and use it to the fullest possible extent.

Senator CAPPER. I would like to ask the witness whether he has any suggestions as to how that situation can be met; that a man who has a warehouse and has it filled up with grain could certify what he has and use it.

Mr. YOHE. I have not gone into that enough as yet, Senator. We have been thinking about going out among some of the Federal reserve banks where that question has become most acute and see if we can not work out some scheme that will meet the situation and help out the warehouseman.

Representative SUMNERS. Let me ask, Why can't they put the commodity in a separately incorporated warehouse?

Mr. YOHE. I sometimes question whether there is enough in the warehousing of agricultural products to pay; whether there will be enough of storage of agricultural products, especially in years of normal demand, to pay for the building and maintaining of proper warehouses.

Mr. YOHE. Now, let us bear this in mind, gentlemen. First of all, the act covers only four products, and that is all, and those products move out very rapidly sometimes, especially at the country elevators.

We have got this situation confronting us right now with some men that have got licenses: their product has come in about the 1st of September, and it will soon move out of the warehouse and there the warehouse stands idle for the entire year.

Representative SUMNERS. If they do not get enough out of operation to make it profitable they will discontinue.

Mr. YOHE. These warehouses are out on the plains very close to the point of production, with not even a town there. They are put there for the convenience of loading.

Representative SUMNERS. The point I am getting at is this: Why do they have to do it in connection with another business; they could incorporate it——

Mr. YOHE (interposing). That means, as I see it, that you have got to have large warehouse facilities at only a few places.

Representative SUMNERS. I imagine I do not make myself clear to you. I do not get your viewpoint at all.

The CHAIRMAN. I do not see how the Federal Government or any other government can recognize the policy of allowing a man to issue receipts to himself. I think it is unsound. I think it is out of line with the whole theory of the warehouseman, who is reliable and responsible and who is independent, in the case of financing the crop, of both the borrower and the lender.

Representative FUNK. And no security either.

The CHAIRMAN. Absolutely not. If the man owns the stock himself, he does not have to give himself a warehouse receipt for it. I assume he could give a chattel mortgage or some other security.

Mr. YOHE. And when it comes to the milling industry——

The CHAIRMAN (interposing). We can not make laws to apply to all the peculiar ideas of the milling industry.

Mr. YOHE. I realize that, but what I want to get before you is that the men who are in the milling industry when they want a loan, all they are required to do is to render a financial statement. There isn't any security put up, and yet the banks extend them a line of credit.

The CHAIRMAN. But that line of credit is not based solely on the grain in the warehouses.

Mr. YOHE. No.

The CHAIRMAN. It is based on all the liquid assets of the institution.

Representative TEN EYCK. But there is another question that comes in here. If the farmer, on his own farm, has a warehouse, and stored in it several thousands of bushels of grain, I believe that he has a right to certify that it is there, under proper Government jurisdiction, and borrow on it, and the Federal reserve bank ought to discount that paper.

Representative SUMNERS. He could not borrow as a warehouseman. He could only borrow on his grain.

Representative TEN EYCK. The question is, What should he have to do to borrow on his grain? He should be able to borrow on it the same as a business man borrows on a bond.

Representative SUMNERS. But the point is that he keeps his bond.

Senator ROBINSON. The whole system is based on the theory that the warehouseman is a different individual, who acts as a trustee and who holds possession of the property for the benefit of both

parties, the borrower and the lender. Now, when you let him retain possession of the property and issue a receipt to himself and borrow on it, there is no such thing as a warehouseman or a trustee and you are simply letting him go along on his own moral responsibility handling the property, and selling it if he wants to.

Senator HARRISON. You say the Atlanta district bank allows this paper to be rediscounted?

Mr. YOHE. Yes, sir.

Senator HARRISON. On what theory do they allow it, if you know?

Mr. YOHE. Simply on the fact that it is licensed and under supervision.

Senator HARRISON. They go on the theory that you have to look at the character of the individual who owns the paper, and also to the warehouse, as you do on other loans?

Mr. YOHE. Not so much, I think, the character of the individual. They first know that it is issued by one of these licensed warehousemen, and then the man who holds the receipt can go to the bank with his piece of paper and borrow on what the piece of paper shows is supposed to be in the warehouse.

Senator HARRISON. Of course, there are other charges in the warehouse. Take, for instance, in the Delta district, where the soil is very productive and the man who is a large planter, who raises thousands of bales of cotton, builds a warehouse and he stores cotton for other people and charges them for it. Now, he gets cheaper insurance.

Mr. YOHE. He may, yes, sir.

Senator HARRISON. I do not think the law should be changed so that a man could not own his own warehouse, but it is a question of good or bad policy whether the Federal reserve bank wants to loan money on the paper that he puts out himself.

Mr. YOHE. And that policy rests with the Federal reserve banks.

Representative TEN EYCK. But why should he be restricted, if he is of benefit to the community?

Senator CAPPER. Is that not largely a matter that is between the warehouseman and the banks?

Senator HARRISON. Yes.

Representative FUNK. You spoke of the attitude of the system as a whole. What is the attitude of the War Finance Corporation with respect to accepting these receipts as collateral? Has that come to your attention?

Mr. YOHE. I don't know that the Federal Reserve Board and the War Finance Corporation have anything to do with each other.

Representative FUNK. No; they have not, but we have lately extended a large line of credit to the War Finance Corporation for the purpose of enabling them to assist producers to hold their products.

Mr. YOHE. Yes.

Representative FUNK. Now, they advance money to the producers.

Mr. YOHE. Yes.

Representative FUNK. One of the ways in which this scheme can be of benefit is to enable the people who produce to hold their property for an advance in the market, and in order to do that they store it. Have you observed the attitude of the War Finance Corporation with respect to those receipts?

Mr. YOHE. The War Finance Corporation has studied the warehouse act and its administration, and if the warehouse is licensed they will accept the receipts.

Representative FUNK. There is no question of collateral?

Mr. YOHE. Oh yes. As a matter of fact, in cases where the warehouseman has not become licensed the War Finance Corporation sometimes has asked us to make an inspection, and if we pass it, they will immediately accept his receipt.

Representative FUNK. Have you any information as to the proportion of producers who have used these public warehouses, or have the uses of them been confined to what you might term middlemen?

Mr. YOHE. Oh, no.

Representative FUNK. Take cotton, for instance. That seems to be more spoken of here; the system seems to be used by the cotton men the most.

Mr. YOHE. Yes.

Representative FUNK. Is that cotton held by the producers to any extent?

Mr. YOHE. I could not give you any idea of the proportion that is owned by the producers, but I know that it comes in there indiscriminately, producer, buyer, and shipper. I think there is as much of one as the other.

Representative FUNK. Well, you spoke of the grain situation, of one concern with 68 warehouses, and another with 20, or something similar to that.

Mr. YOHE. Yes.

Representative FUNK. Do those concerns own and store their own grain, or do they do it for the public?

Mr. YOHE. They are acting as public warehousemen.

Representative FUNK. I know they are public, but is it their own grain, or is it grain that is stored there for the producers?

Mr. YOHE. It may be both, and it frequently is. For instance, one line of elevators is connected with a large milling corporation, and they receive the grain as it comes in and buy it, and they may also have some grain in there that is stored for the producer.

Representative FUNK. One other question: You spoke about the rates for storage. Do you require that the rates shall be nondiscriminatory?

Mr. YOHE. Yes, sir.

Representative FUNK. You have that in your rules?

Mr. YOHE. Yes. Every warehouseman, who is licensed, files with us a copy of his rates, before he is licensed.

Representative FUNK. And those rates must be alike to all?

Mr. YOHE. Yes; they are supposed to be. I do not know of any single case where one man gets one rate and another gets another.

Senator HARRISON. How many States now have a separate warehouse system?

Mr. YOHE. I do not know.

Representative FUNK (interposing). Illinois has.

Senator HARRISON. Do you believe that the warehouse system of the United States now is a decentralized and disintegrated system, subject to the widest variations of regulation?

Mr. YOHE. I don't know whether I get all of that or not.

Senator HARRISON. Well, I am just wondering whether our report on this is going to be made clear.

The CHAIRMAN. I hold it to be true that as the thing now stands, the warehouses of the country are, for the most part, either not regulated at all, or are regulated under State law.

Representative Funk. And which are permissive.

The CHAIRMAN. No.

Representative FUNK. That the warehouses may avail themselves of it, or not.

The CHAIRMAN. I am talking of the whole scheme of warehouses.

Mr. YOHE. There are some State laws, of course.

The CHAIRMAN. I am not talking of Federal warehouses; I am talking of the whole scheme of warehouses. Is it not true that the warehouses now are subject to as many varieties of State laws as there are States?

Mr. YOHE. I think that is correct.

The CHAIRMAN. And is there not the widest variation in the practices on the part of the warehousemen as a result of this legislation?

Mr. YOHE. I think that is correct. I think the only attempt at uniformity is the attempt to get a uniform receipt. There is no attempt at supervision. There are, in some of the States, however——

The CHAIRMAN. I know as between Minnesota and North Dakota, the requirements of the warehousemen are very different, and those variations have constituted one of the greatest obstacles in the attempt to make the warehouse receipt mean the same thing to the banker in Chicago as it does to the banker in New Orleans.

If there are no other questions, I would like to go on another line with Mr. Yohe. Are there any other questions?

Representative TEN EYCK. I would like to ask one general question. Your idea is that a sufficient number of warehouses should be furnished, by some means, either private capital or otherwise, to take care of these commodities, and that rules and regulations should be inaugurated that will make the commodities that are placed in those warehouses for storage subject to utilization for borrowing, so that the paper issued upon them can be rediscountable in the reserve banks?

Mr. YOHE. I think that is desirable. I think the only way to accomplish it will be Federal action which will result in uniformity.

Senator CAPPER. To what extent do the warehouses of the country meet the needs of the country?

Mr. YOHE. We have not been able to determine that, Senator. Thus far under the law we have not been able to ascertain the available facilities; thus far we have made a survey in only one State, and we found that it was grossly inadequate there.

Senator CAPPER. Where was that?

Mr. YOHE. In Oklahoma.

The CHAIRMAN. I have the impression that the Food Administration has very complete data as to the number and availability of warehouses the country over.

Mr. YOHE. We are getting that now, with respect to grain, from their records, going through their records and compiling what information we can. I do not know what the records will disclose.

The CHAIRMAN. Do you care to make any suggestions with reference to changes or modifications of the warehouse law?

Mr. YOHE. There is one feature of the warehouse act which I think it would be well to bear in mind. The act, as it now reads, provides

that the license is good for one year only; it must be renewed each year. I do not see why that license should not be continued indefinitely as long as the warehouseman meets the requirements and lives up to the regulations.

Representative SUMNERS. That is a good suggestion.

Mr. YOHE. There is another suggestion, and that relates to the scope of the commodities that shall be included in the act.

As I said before, we now have only four commodities that are covered by the act. If the law were enlarged so that it could be extended to certain other commodities it might be possible, and I think would be possible, in a great many instances, to build warehouses where you would have a certain product stored at one time of the year, and a little later on a different commodity, and so on, and in that way it would be possible to make use of the warehouse throughout the year.

Representative SUMNERS. What is the reason for the limit on the commodities to be stored?

Mr. YOHE. Maybe you gentlemen can tell me more about that than I could tell you. I understood it was the first thought, when the act was first discussed, to limit it to cotton only. And after discussion, when the matter came up further, it was asked why not extend it and include other commodities, and so it was extended.

Senator CAPPER. What other commodities have you in mind that might be available for storage?

Mr. YOHE. I have not thought of that very much, Senator, and do not think I would like to express an opinion on that matter now. There are so many features that would enter in that would have to be considered. There is the matter of controlling temperatures, etc.

The CHAIRMAN. If there are no other questions, we are very much obliged to you, Mr. Yohe, for your statement.

We will now hear from Mr. Estabrook, of the Bureau of Markets.

STATEMENT OF MR. LEON M. ESTABROOK, ASSOCIATE CHIEF OF THE BUREAU OF MARKETS AND CROP ESTIMATES, DEPARTMENT OF AGRICULTURE.

The CHAIRMAN. Mr. Estabrook, you may state your full name and your official connection.

Mr. ESTABROOK. My name is Leon M. Estabrook. I am Associate Chief of the Bureau of Markets and Crop Estimates of the Department of Agriculture.

The CHAIRMAN. Mr. Estabrook, we would like to have you tell us what the department is doing in connection with foreign markets. My recollection is that we carried, in the last appropriation bill, about $60,000, or thereabouts, for the purpose of establishing in some of the principal producing markets representatives of the Agricultural Department, in the idea of securing more accurate and critical statistics in this country. I would like to have you tell us just what has been done under that appropriation.

Mr. ESTABROOK. There was included in the appropriation act under which we are now operating an item of $50,000 for the purpose of securing more definite and accurate information regarding crop production and the marketing of crops in foreign countries. We already had two representatives in foreign countries—a man stationed at London and one stationed at Buenos Aires, South America.

Their duties have been enlarged somewhat; they are collecting more information and more different kinds of information than formerly.

In addition to those two men we sent three cotton men to Europe to take part in the World's Cotton Conference at Liverpool and to attend the meeting of the International Chamber of Commerce meeting at London in June and July this summer. Two of those cotton men continued their investigations throughout Europe and Egypt, visiting all the cotton milling centers of Europe, trying to ascertain the present situation and the prospects for marketing our surplus cotton and enlarging the demand for American cotton. They were abroad about three months and returned about two or three weeks ago.

This autumn a man was employed to study the meat situation in Europe. He was formerly connected with one of the independent packers and had been their selling agent from shortly after the signing of the armistice until about July. He was thoroughly in touch with all the sources of information over there, and we felt he was very well qualified to undertake such an investigation. The Secretary of Agriculture was extremely desirous, if possible, to stimulate the demand in Europe for American meats, particularly hog products. This man has been quite active and has communicated information of considerable value to the department. More recently a man——

Representative FUNK (interposing). Pardon me on that point. How do you contemplate getting that information before the producers, so that it will be useful and worth while and be of use to them?

Mr. ESTABROOK. The information collected by our men will be communicated to the public through regular publications of the department and through statements issued to the press.

Representative FUNK. And when are those available?

Mr. ESTABROOK. Well, they are available from time to time. For instance, we issue twice a month a summary of the world crop conditions, and we also issue the Monthly Crop Reporter, the Weekly Market Reporter, and other publications from time to time, in which we would incorporate this information that we receive from abroad. Special statements are also released to the press for immediate and widespread publication.

Senator CAPPER. How extensively is that information circulated?

Mr. ESTABROOK. That information goes out mainly to the newspapers, and also to the colleges doing extension work, and now, I assume, the farm organizations are getting it. We send it out to these people, who can get it to the farmers, because we realize that it is impossible for the department to get it to all the people who are interested and who ought to have it, and so we must utilize these extension services and the newspapers as a means of publication.

The CHAIRMAN. I understood it was the policy, or would be the policy, of the department to station men permanently in some of these foreign centers to establish a permanent service having to do with obtaining of information relating to crop movements and markets. Has that plan been abandoned?

Mr. ESTABROOK. That has been our plan, Mr. Chairman, and that is our plan. We are looking forward to it. However, the Secretary felt that it was desirable to make a survey of conditions, especially in Europe, to study the sources of statistical and trade information

over there, and the existing machinery, so that we might set up our organization in such a way that it would not duplicate existing organizations. And it is for that purpose that the last two men have been sent to Europe. Prof. Warren, of Cornell, and Mr. Callender, of the Bureau of Markets and Crop Estimates, were sent over this fall, and they are engaged in that survey at the present time. They will call, for instance, on the attachés of the Department of Commerce to ascertain just what they are doing; they will call on the various departments of agriculture of the different countries of Europe and on the International Institute of Agriculture at Rome. Our idea was, in sending those men over there, that they will come back in two or three months with a program pretty well crystallized out, which would enable us to set up an organization and fill in any gaps, but without duplication of the work of the International Institute of Agriculture or the work that the Department of Commerce is doing.

The CHAIRMAN. All that touches upon the particular point in which the commission is interested. Assuming that the commission believes that the Government should have some man over there devoting his time, particularly to the securing of information regarding the marketing of agricultural products and obtaining statistics with reference to that, what advantages or disadvantages are there in having those representatives attached to the Agricultural Department, as compared with having them attached to the Department of Commerce?

Mr. ESTABROOK. We feel that it is absolutely necessary that the representatives of agriculture as an industry should be attached to the Department of Agriculture, in order that they may have the background and the understanding and the insight into agriculture which comes only from association with this great organization in this country which is dealing with agriculture. That, in fact, a proper understanding and appreciation of the problems of American agriculture involved in the disposition of the burdensome surpluses which we often have, greatly depressing farm prices, can only be obtained by men who have the agricultural viewpoint. I think that is absolutely clear. I have asked myself the question many times this summer, especially since the whole question of the reorganization of the executive departments has been brought forward, and the matter has been broached—I have asked myself many times, "What if the Bureau of Markets and Crop Estimates, particularly, should be transferred to the Department of Commerce"? I have asked myself, "Suppose we, the same personnel, were transferred to the Department of Commerce, could we function as efficiently as we do now, and expect to do in the future, as a part of the Department of Agriculture"? And my feeling is very strong, and I think I voice the feelings of others in this department of work, that we could not function as efficiently in the Department of Commerce as we can in the Department of Agriculture, where we are in touch with the men investigating the whole biological, production, and economic side of agriculture. All lines of investigation are tied up so closely together that I think it would be a mistake to transfer this branch of the service to the Department of Commerce.

Senator HARRISON. Is there any movement on foot now to put the Bureau of Markets in the Department of Commerce?

Mr. ESTABROOK. I have not heard anything of it recently.

Senator HARRISON. Have there been within the last eight months?

Mr. ESTABROOK. Within the last eight months there have been numerous references to the matter in the press. And presumably it has been under consideration by the men who have this matter in hand. The very name "markets" implies commerce, and many people who have not given the matter study think that the Bureau of Markets properly belongs in the Department of Commerce.

Representative SUMNERS. And you think it would be prejudicial and a mistake to separate the market end of agriculture from the productive end of agriculture?

Mr. ESTABROOK. I do, very much.

Senator HARRISON. You should have a chance to be heard on that subject before it is done.

Mr. ESTABROOK. We think it is highly desirable and extremely important that agriculture have its own representatives abroad.

Representative SUMNERS. That is what I want to know about. Now, you take the question of cotton, and the men who have gone abroad to secure information—I am sympathetic with the idea, but I do not see where you get the benefit. I do not see where there is a benefit either abroad or here, or what information a man could get if he went over there and made a study of that situation which would add either to the purchases on the other side, or to the methods of sale and distribution between this country and Europe that the cotton merchants in Europe and in this country who now control the business do not know.

Mr. ESTABROOK. Well, those two men, in their short tour of duty over there, established a number of connections with governmental agencies. For instance, they arranged for a more prompt transmission to our department here of their official reports, which will cut down the time very materially, particularly with reference to India. They met the representatives of the Indian Government, and also of Egypt. We will get those reports in a much shorter time now because of the contract which they made and by our interchange with them. We get some of those reports now by cable.

Representative SUMNERS. On production?

Mr. ESTABROOK. On production. And then on the question of the market demand for cotton. These men made a rather careful study of the port facilities and warehouse facilities at Amsterdam and other places in Europe, particularly at Danzig and Lodtz in Poland, and there seemed to be considerable opportunity there for exporting trade in our cotton and cotton products, particularly to take the place of the market which Russia had formerly, Russia now being out of the game and can not get back for some years, probably. The information obtained by these men is exceedingly valuable and is being utilized. For instance, copies of their reports were furnished promptly to the Director of the War Finance Corporation.

Representative TEN EYCK. Is it your idea that we should establish Government representatives in the various centers in Europe, whose sole duty it will be to obtain information as regards the farm industry of that particular locality or country, so that he may obtain authentic information as regards the amounts of crops raised, the amount of produce stored, the amount consumed, the amount imported by the Government, and from whom imported, and the amount

imported from each country, and such other information as regards the method of growing, kinds of seeds used, and the kind of food consumed in the particular locality in which he is located; is that all necessary information?

Mr. ESTABROOK. Yes; that and more too.

Representative TEN EYCK. Now, along that line, how many different Government agencies have we over there at the present time representing different Government bureaus?

Senator CAPPER. You mean interested in agricultural enterprises?

Representative TEN EYCK. Yes; interested in agriculture?

Mr. ESTABROOK. Interested directly in agriculture?

Representative TEN EYCK. Who are supposed to report on agriculture.

Representative FUNK. As a whole or part of their duty.

Mr. ESTABROOK. You mean employed by the United States Government?

Representative TEN EYCK. Yes.

Mr. ESTABROOK. So far as I know there are none, except the few individuals we have abroad.

Representative FUNK. You spoke of the Department of Commerce making reports on agricultural conditions.

Representative TEN EYCK. My idea is, have we any dual agencies over there, representing the Agricultural Department or representing the Department of Commerce or representing the Secretary of State, who report to our Government on agriculture more or less, to a degree?

Mr. ESTABROOK. Or who could be utilized for that purpose?

Representative TEN EYCK. No; not who could be utilized for that purpose, but who are doing it now?

Mr. ESTABROOK. Aside from the few representatives of the Department of Agriculture abroad that I have mentioned, the only other Government agency that collects information regarding agriculture to a very limited extent is the Department of Commerce, but that is only quite recently. Some time in the spring, in May, possibly, we had a conference with the officials of the Department of Commerce—Dr. Klein and some of his assistants, who came to our bureau and met Dr. Taylor and myself and Dr. Montgomery, who was then with us, and we discussed the question of how the commercial attachés and others who were employed by the Department of Commerce might get information which we in the Department of Agriculture realize is needed. And Dr. Klein and his assistants promised the fullest cooperation possible; in effect, that their commercial attachés were at our service so far as we could utilize them, and we felt that they could be utilized to a very large extent to get information and transmit it through their department to the Department of Agriculture. I recall that at that time I promised to draw up a program which would keep the commercial attachés fully occupied in connection with agriculture.

Representative FUNK. That was last spring; what have you developed since then?

Mr. ESTABROOK. Some information has come through. I don't know just how much. But some of it—I am sure they have carried out that arrangement in good faith, and they have sent us some information. I know that we have been corresponding back and forth.

Representative TEN EYCK. Well, do you not think it advisable to have representatives over there under one head, reporting back to this country on the various things regarding which I suggested in my previous question?

Mr. ESTABROOK. I think that for agriculture they should head up in the Department of Agriculture. I think we should specify the kind of information that we need, and we should follow it up and see that we get it.

Representative TEN EYCK. I had intended to follow that up by asking you what department you would recommend having it under. But what I want to ask you now is whether you would not recommend organizing a system for collecting data over there under one head for the purpose of obtaining agricultural information, so that we would have an organization for this purpose, rather than to accumulate it through a number of different agencies, so as to obtain an outlet for our surplus.

Mr. ESTABROOK. Well, I think in terms of departmental organization, and the Department of Agriculture all the time, and the ultimate object we are after, which is the information.

Representative TEN EYCK. That is the idea.

Mr. ESTABROOK. And my thought is this: That the Department of Agriculture should have its representatives in the various countries, countries which have a surplus production in competition with our farmers, and in countries of deficient production to which we sell our products.

Representative TEN EYCK. Then you would cut out the other countries?

Mr. ESTABROOK. No; I would not. I would utilize information from all sources. We would have an understanding with the Department of Commerce, just as we have now, that our men should work together; that our men should be primarily responsible for getting information regarding agriculture, production, stocks, surpluses, deficits, supply, demand, prices, farm practices, methods, possibilities for increasing production, standards of living, cooperative enterprises, insurance methods, agricultural finance and credit, and all that kind of thing. And then we should have information as to their plant and animal diseases, and their insect pests, and what they are doing to control them. And that information our men could get. That is, information relating to the technical side of agriculture, which the commercial men would find it extremely difficult or impossible to get.

Representative TEN EYCK. Why could they not get the commercial side?

Mr. ESTABROOK. They probably could get the commercial side, too. But I would have these men closely associated with the commercial attachés. I believe in a division of labor. Suppose we have two men at London, one an agricultural and the other a commercial attaché. I would not think of doing other than having those two men closely associated, so they would be working together; they would both be interested in developing our trade and in stimulating sales of our farm products. Two men can always work better than one; two heads are better than one; and I believe we would get better results if they were working together along those lines.

Senator ROBINSON. Suppose the suggestion of Mr. Ten Eyck should be adopted and put in operation, have you made any estimate of the additional number of men that would have to be put into the service for the purposes he has indicated?

Mr. ESTABROOK. I gave a little thought to that subject last night, after I was notified that I would be called on this morning. I mapped out what I thought would be required, and to put in a complete system I think we ought to have about 15 representatives.

Senator ROBINSON. Do you think 15 men could do it?

Mr. ESTABROOK. I think 15 men could cover it very well. Then I would give each one of those men a good, competent clerk to run his office. I would give him permanent headquarters in his territory; I would define his territory and his duties; and I would expect him to travel a large part of his time, just as our statisticians in this country do, making observations, studying conditions, talking with the farmers and the live-stock specialists, and interviewing Government officials and well-informed business men over there, getting back to his headquarters once or twice a month. In the meantime his clerk would be taking care of the information which comes into the office, transmitting it promptly by mail over here, and cabling important information which should be transmitted more promptly.

Senator ROBINSON. You would have, then, 15 officers, with that number of heads and subordinate clerks.

Mr. ESTABROOK. Yes.

Senator ROBINSON. What would be the total number of employees, approximately?

Mr. ESTABROOK. If we had two men with each of those headquarters it would mean 30 men.

Senator ROBINSON. Thirty men?

Mr. ESTABROOK. Thirty men; and in addition to their salaries would be the cost of travel, the rent of offices, and the little equipment they would have to have, a typewriter, and a mimeograph, perhaps, and stationery and supplies.

Senator ROBINSON. What salaries ought those officers have, approximately?

Mr. ESTABROOK. The agricultural attachés, if you call them that, should be men of the highest ability that we can employ. It would take a very broad-minded man of good judgment, somewhat diplomatic, and thoroughly grounded in American agriculture; he ought to be well informed on the crop and live stock conditions of the United States; the history of agriculture; the organizations of agriculture, and understand in a rather broad way the economic side of agriculture; what is involved in all this distribution and exchange of products that takes place.

Senator ROBINSON. What would it probably cost to employ men of that type? I agree with you that men who are employed for that service must be men of a very high order.

Mr. ESTABROOK. The best we can get.

Senator ROBINSON. What would we have to pay them, approximately?

Mr. ESTABROOK. Well, I would say from $4,000 to $6,000.

Senator ROBINSON. Each?

Mr. ESTABROOK. Each; I would average them at $5,000.

Senator ROBINSON. And as to the clerks, what would be the salary of the clerk, approximately?

Mr. ESTABROOK. The clerks should have a salary of from $1,500 to $2,000; it would depend on their qualifications, and the capabilities of the particular individuals. Some men would be worth more than others, but I would average them at $1,500.

Senator ROBINSON. That would be approximately $120,000.

Representative FUNK. I should say about $150,000.

Mr. ESTABROOK. I estimated the various elements of cost at each office at, say, $5,000 for the principal man, for the attaché; $1,500 for a competent clerk; $1,000 for telegrams and cables, because a good deal of this information ought to come by cable.

Senator ROBINSON. It would probably aggregate nearly a quarter of a million of dollars.

Mr. ESTABROOK. No; I figured that each one of these offices could be put on a good operating basis for some $10,000 to $12,000. Then, it depends upon how many you set up.

Senator ROBINSON. Does that take into consideration the rent and the travel?

Mr. ESTABROOK. Yes; the traveling expenses, the letters and cables, and the equipment.

Senator ROBINSON. What would be the number of additional men required in the department here to handle the additional information thus secured; have you estimated that?

Mr. ESTABROOK. Not exactly. I had in mind that our present organization perhaps would handle it.

Senator ROBINSON. Your idea would be that while establishing these, say, 15 centers of information, you would also continue the cooperation, so to speak, between these agricultural agents and the commercial attachés?

Mr. ESTABROOK. Yes, sir.

Senator ROBINSON. You would not, then, recommend the suspension of whatever activities are now being engaged in by the commercial attachés in that regard?

Mr. ESTABROOK. By no means. I think the commercial attachés are performing a very valuable service and one which will become very much more valuable in the future than it has been in the past. They are serving the whole industrial side of our country; and, as our export trade has run in the past, it is about 50–50 agricultural and industrial.

Senator ROBINSON. Why could not the commercial attachés perform the whole service?

Mr. ESTABROOK. Because they lack the agricultural training—the insight into agricultural problems—and such men can never get the information agriculture needs or understand it if by chance they get it. You might as well ask an automobile salesman to estimate the cotton crop of the South or the wheat crop of the North.

Senator ROBINSON. Yes; but the force of your suggestion is weakened if not destroyed by your own willingness to use the commerical attachés. You say that they are performing a valuable service, and why could they not continue to do it?

Mr. ESTABROOK. I have not said to what extent their information would be helpful to agriculture. I have no doubt that their service is valuable to other industries, especially manufactures.

Senator ROBINSON. You do not want information that is not helpful to you?

Mr. ESTABROOK. So far as they can serve this purpose, my idea would be to utilize them and to help them by suggestions to get information that would be valuable to agriculture.

Senator ROBINSON. Of course, you do not want information that would not be valuable?

Senator HARRISON. Well, of course, a man who is possessed of those qualifications that you have described, who has such a broad general knowledge, and a special knowledge of agriculture, why could he not be used by the Department of Commerce as well; why could he not fill both positions?

Mr. ESTABROOK. The work would be too much for him. No one man can cover so many special fields.

Senator HARRISON. A man of that kind ought to be able to get the figures you desire and also the figures on commercial activities.

Mr. ESTABROOK. The work would be too much for one man to perform.

Senator HARRISON. That work was at one time done by the consular agents, and recently we have started this commercial-attaché business.

Mr. ESTABROOK. There is a law on the statute books now, and has been for 40 years, requiring the consular agents throughout the world to make reports to the Secretary of Agriculture, through the State Department, on various agricultural matters, such as crop conditions, and so on, but that has never been done, and it is of absolutely no use to agriculture.

Senator ROBINSON. Do you know why that is?

Mr. ESTABROOK. It is partly because of the character of the men who are appointed and partly because they are not trained in the work.

Senator ROBINSON. They have no sympathy with the work?

Mr. ESTABROOK. Partly that; and they have no knowledge of the work.

Senator HARRISON. Mr. Estabrook, I am entirely in sympathy with having the commercial attachés get this information. But it looks to me like a waste of effort, unless there is one head established where we could get this information which is desired. It seems to me now, when there is an effort being made at reorganization, bringing the departments into more harmony, that we stand little chance to create this new machinery over there.

Mr. ESTABROOK. If these attachés are to be employed to get information about agriculture, and if they are placed under the Department of Agriculture, we will see that they get information that is needed, so far as it is obtainable. We know precisely what we want and we know pretty well how to get it, and we will see that we do get it if we can have the right kind of men—men trained in agriculture. Now, with men with only commercial training and located in another department of the Government——

Senator ROBINSON (interposing). You have no control over them?

Mr. ESTABROOK. We have no control over them. They report to the Secretary of Commerce, and they lack the necessary training in agriculture to enable them to have an intelligent understanding of agricultural problems.

Senator HARRISON. But could you not coordinate it to the extent that it could be done for both departments?

Mr. ESTABROOK. It takes a week sometimes to get things through another department in Washington. It is important that this information be transmitted promptly. For instance, take the reports on acreage or condition of a great staple crop which influences market prices and have an important effect on the exchanges and boards of trade. You see the prices of wheat and corn or other grains going up and down from day to day and hour to hour, and if you will follow it through you will see the explanation. It is because it is rumored that there is a drought in the Argentine or that adverse conditions prevail in certain other countries. We should have a representative in each principal country who could confirm or disprove a rumor immediately by cable and thus stabilize the market.

Senator ROBINSON. Talking about getting things through Washington—I do not know that this is pertinent to this inquiry, but I was told of a certain important communication that was sent from one department to another, three blocks, by special messenger that did not arrive until the expiration of 12 days. I am not sure that anything that has been suggested here would remedy that.

Mr. ESTABROOK. Now, as an illustration, our bureau asked the Department of Commerce about two or three weeks ago, now that these commercial attachés are to be at our disposal, to get for us the acreage of the newly sown wheat crop in Argentina. That was an important factor in the wheat trade at that time, and the crop was just sown, and we wanted those figures, and we wanted them as soon as possible. It means a great deal in the wheat trade, as it has an effect on the prices. We asked the Department of Commerce to get that information for us from their attaché at Buenos Aires. At the same time we asked our man, because we happened to have a man at Buenos Aires, to get that information for us. He got it and transmitted it to us by cable and it was immediately released to the press and included in our reports. A few days later we had a reply from the Department of Commerce to the effect that the acreage of the newly sown wheat in Argentina would not be available for a month.

Representative FUNK. Did he get it through the Department of Agriculture of Argentina or independently?

Mr. ESTABROOK. He got it from the Department of Agriculture of Argentina. Now, it is just those things we want. We need them very badly. Prompt, definite, and dependable information on factors affecting agricultural supply and demand and prices.

Representative TEN EYCK. Regardless of how you get it, it is valuable to have that information, because it means millions of dollars to the farmers of this country?

Mr. ESTABROOK. Exactly.

Representative TEN EYCK. Now, your recommendation as regards separate agencies, separate from everything else, of course, is questionable and will have to be gone into with a great deal of thought. But at least they could be in the same buildings and utilize the same offices?

Mr. ESTABROOK. Of course. That is highly desirable.

Representative TEN EYCK. The question is whether we should not recommend that this information should be gotten and that the Government should utilize those agencies which it has, and only add those in the future which are necessary.

Senator ROBINSON. That is his suggestion.

Mr. ESTABROOK. My idea is to utilize all existing agencies and to supplement them.

Representative SUMNERS. Your idea is that if we have a few men abroad whose business it is to get this information, that they can direct and stimulate the activities of the other people?

Mr. ESTABROOK. Absolutely.

Representative SUMNERS. But what I have never been able to understand is, What are we going to do with this information after we get it? Take the cotton situation. It is not so much knowledge we need as instrumentalities through which it may be used. Now, you have these people getting information about cotton. If cotton were sold by the farmers over there, then I can see how that would be very valuable. But these big organizations selling cotton, I do not see how this information will help them. However, I will withdraw the question and will not ask for an answer, inasmuch as our time is limited, but I will talk with you some time privately about that matter.

Mr. ESTABROOK. I will do so with pleasure.

Senator CAPPER. Are the agricultural departments of any of the foreign nations working in this country on the lines you have suggested we should work in the others?

Mr. ESTABROOK. Quite a number of the foreign countries have agricultural attachés here. They call at the department from time to time, and they circulate throughout the country, and they are studying very carefully our agricultural conditions and crop production. Many of the small countries maintain them. At the general assembly meeting of the International Institute of Agriculture at Rome, Mr. Harvey J. Sconce, representing the American Farm Bureau Federation, was advocating a system of agricultural attachés. He presented a resolution to that effect to one or more of the committees, asking the International Institute to advocate and to request the adhering Governments to employ agricultural attachés to supplement the work of the institute. Now, that resolution was not acted upon, partly because it was not submitted in the proper form—that is, 90 days before the day of the meeting—but mainly because most of the adhering countries have attachés, and they thought it was not necessary.

Representative SUMNERS. Let me ask you this question: Why could we not send just one man to the capital, and get in touch and keep in touch with the Governments, and have an international arrangement under which they would supply this Government with such information to our Agricultural Department with reference to production and consumption, and in turn give that information to them, just as you got your information from Buenos Aires and have just one man over there instead of establishing a lot of people over there?

Mr. ESTABROOK. Well, we need one man like that to be stationed at the capital of each principal country, or a group of countries. For instance, the man at London would cover the British Islands, and incidentally get some information from northern Europe, from the great agricultural centers there; we should have a man at Paris to cover France, Switzerland, and Spain; one at Berlin to get information from Germany, Denmark, and Poland; one at Rome, Italy, to take care of Italy, and perhaps Spain and North Africa; and we

need a man in the Balkans and southern Russia. All these countries should be covered by men stationed at the principal capitals, who, in addition to collecting information from unofficial sources, would establish cordial cooperative relations with the Government officials concerned with agriculture.

Representative SUMNERS. Gathering information from official sources?

Mr. ESTABROOK. Yes, sir. And in addition to that, there is a great deal of information which he can collect through unofficial sources.

Representative TEN EYCK. You need men in places like Egypt and India, where they raise cotton?

Mr. ESTABROOK. Yes; I was giving these as illustrations, and indicating where men could be advantageously placed. We need a man at Calcutta, India.

Senator ROBINSON. You need men also in South America?

Mr. ESTABROOK. Yes; we have a man now at Buenos Aires, and he can look after Paraguay and Uruguay, also. We should have another man in Brazil, and possibly on the west coast also.

Representative FUNK. I take it that this is not only your own suggestion, but that requests have come to your department for such representatives?

Mr. ESTABROOK. Numerous requests have come to us for information during the war, and we have not been able to meet the demand, because we have not been able to get it. Practically all the large national farm organizations, such as the American Farm Bureau Federation, men in various commodity organizations, and men connected with the agricultural colleges, and various marketing agencies have recommended and advocated such a system.

Representative FUNK. I think that is important for us to consider, that it is not your own view only, but that there are requests from the people for this service. It is not your own view, but from the correspondence coming to the department you think that the country would welcome the establishment of this service?

Mr. ESTABROOK. Yes; and that is particularly true as these great farm organizations have developed, and as they feel the need of this information; they feel that the need for these foreign representatives is imperative.

The CHAIRMAN. We are very much obliged to you, Mr. Estabrook, for appearing. And the commission will now hear Mr. Julius Klein, the Director of the Bureau of Foreign and Domestic Commerce of the Department of Commerce.

STATEMENT OF MR. JULIUS KLEIN, DIRECTOR OF THE BUREAU OF FOREIGN AND DOMESTIC COMMERCE, DEPARTMENT OF COMMERCE.

The CHAIRMAN. Mr. Klein, we would like to have you tell us briefly just what the Department of Commerce is now doing with reference to securing information in foreign countries as to trade conditions, and disseminating it there.

Mr. KLEIN. We have, in the first place, an organization, including a number of foreign representatives, which has been built up since 1914. A personnel of perhaps 80 persons is maintained abroad as a result of an insistent demand by exporters for all kinds of information with reference to foreign trade conditions. And then, too, the

Consular Service, under the State Department, is in close touch with our department, because its trade reports are required by law to be transmitted to the Department of Commerce. More recently, as the result of an appropriation of $250,000 made last spring for the promotion of export industries, we established a group of commodity divisions, including one devoted to foreign trade in foodstuffs, for the study of overseas markets under the direction of specialists. These men are chosen, as far as possible, from among those who are specially conversant with the industry concerned. For instance, for the study of automobiles, we communicated with the National Automobile Chamber of Commerce, which found men who were thoroughly conversant with all branches of the automobile business abroad, and they are now working with us.

In the lumber and textile industries we also secured the very best men who could be found by trade associations in those industries. Among the commodities to which we have given special attention are the food products, because a very large percentage of our export trade is made up of that category.

Although there are some 600 foreign trade representatives and agents of the Government of the United States, consular and otherwise, who are sending in reports on all sorts of commercial subjects there has been, until recently very little effort to coordinate this work from Washington. In other words, experience has shown that what was needed was intelligent direction here; not so much a matter of building up larger information services in the field, but more a question of regulation or coordination between the departments here and utilization of that service in this country.

We have established, then, a foodstuffs division, the chief of which is Mr. E. G. Montgomery, who was formerly in the Bureau of Markets of the Department of Agriculture. And in our efforts to make service more useful to the foodstuffs trade of the country, especially that part which is interested in foreign markets, we called on some of the largest exporters of food products, and asked them for specific advice and suggestions. The first approach of that sort was made to the National Canners' Association, because of the fact that its members exported last year something like $120,000,000 worth of goods, and have had an unusual opportunity to study the problems confronting American industries abroad, such as the prejudicial tariffs in some of the countries, discriminatory food laws and embargoes of all descriptions, all of which our field men had been handling for some time.

The Canners immediately came forward with a comprehensive scheme for investigation and service, not only with reference to the fruits of California but to all sorts of canned goods, such as fish, vegetables, and other products of the Northeastern and Central States as well. That committee of which I speak has been in session more or less regularly during the last six weeks or two months, and at their suggestion we appointed as chief of the canned goods section Mr. B. R. Hart, who is one of the leading experts in this field. He is now directing the studies of our field men throughout the world, sending out questionnaires and instructions to consuls and trade commissioners as to how to secure important information on tariffs, food laws, competition, and the other data desired.

A somewhat similar situation came up with reference to corn products and we are now assisting this trade as we did in the case of the Canners' Association. Trade Commissioner LeClerc is now in Europe studying the market conditions for certain types of corn products, especially corn grits. It was thought that in view of the changes in diet now being made by many of the people in central and eastern Europe that there might be opportunity for the introduction of that type of food.

The important thing that we have found in the past seven years on this job is that there must be a follow-up to every specialized field study. And that is a thing we must have through resident agents abroad who are not specialists but who are experts in fundamental economic problems, such as tariffs, shifts in our industrial situation. transportation, and marketing.

We are already being approached by many other trade associations for similar services. I have just given you a few illustrations of what we are doing along the line of food products.

With reference to any general agricultural information gathered by our foreign representatives, aside from such special topics as canned goods and corn products, it is, of course, obvious that every resident agent of the Department of Commerce abroad must inform himself in detail of agricultural conditions in his district. It would be absolutely impossible, for example, for our offices in Europe to keep us advised of trade prospects there unless they kept us informed very accurately of the crop conditions. That is absolutely necessary. We have got to have that information if we are to know anything about the purchasing power of those people. And under the arrangement which Dr. Estabrook has described, we are trying to cooperate with the Department of Agriculture in every possible way.

The hitch which he described in Buenos Aires was found to be due to another cause than inefficiency on the part of the commercial attaché.

The CHAIRMAN. Let me ask you this question: There are only 24 hours in a day, and only so much work can be done by a man. If the question comes down to the proposition that the man you have in the field was so fully occupied with the duties connected with the marketing of products, whether food products, or otherwise, that he could not devote sufficient time to the question of agricultural markets and reports and do a satisfactory job, what do you say?

Mr. KLEIN. I should feel that unless they could they would not be worthy of their positions. I mean to say that information of that sort is so fundamental that they have simply got to get it or we must know the reasons why.

The CHAIRMAN. If you are going to get it, could you do it with the staff you have now or do you have to put on additional men for that purpose?

Mr. KLEIN. We could probably get it with our existing staff. It may be we would have to put on one or two men at the important posts. But I feel that by putting them on we could get men comparable to the men I have described. The service could be given. We are giving such service to the Rice Growers' Association in California now, who are very much interested in the rice situation abroad. We are supplying them with information as to the de-

mand for rice abroad, in the countries of Europe and throughout the world.

The CHAIRMAN. Does your service contemplate methods and changes in production and marketing of products abroad?

Mr. KLEIN. Yes; to a considerable extent. That is to say, our men are selected with a view to their capacity to collect information of that type in so far as it is valuable. There is, of course, information of a highly technical category that we can not expect them to secure. It would be impossible for them, for example, to make a study of the boll weevil in Mexico, because they would not have the necessary technical equipment.

Representative TEN EYCK. If we had known of that pest in Mexico and the information had come to the department which knew just what to do about it, we would be free from it in the United States to-day, undoubtedly.

Mr. KLEIN. Let me give you one illustration of that. The drought in France this summer had a very great effect on our trade in France. Our attaché there was reporting to us almost regularly week by week as to the status of that drought, because of its profound effect on the French trade position in general. Our office in London now has eight men, and we have nine in Paris, with smaller staffs in other capitals, and we therefore have adequate arrangements to get this general information on agricultural conditions.

Representative TEN EYCK. Have you any form setting forth the information that the agents are required to report on concerning agricultural products?

Mr. KLEIN. I haven't it with me.

Representative TEN EYCK. Have you a form that you issue to them for that purpose?

Mr. KLEIN. Yes; they have a schedule of questions on which they report currently covering about 23 topics, some of which are agricultural. There are also special reports that come to us by cable and by letter bearing on agricultural matters.

Representative TEN EYCK. Would it not be well to have a copy of these forms inserted in the record?

The CHAIRMAN. Yes; we will be glad if you will furnish a copy for the record, Mr. Klein.

Mr. KLEIN. I will be glad to send one up.

(The form requested was afterwards furnished by Mr. Klein, and is as follows:)

EXHIBIT A.

The following are some of the topics supplied to all Department of Commerce agents in the field (abroad), upon which the monthly cable reports of economic conditions are based:

1. Stock of export commodities (including agricultural commodities).
2. Import prices (including agricultural products).
3. Export prices (including agricultural products).
4. Foreign trade commodity movement (including agricultural products).
5. Stocks of import merchandise (including foods, cotton, etc.)
6. Relative to crops, including seeds, planting, acreage, weather conditions, crop failures, crop markets, etc.
7. Cost of living conditions, including data on foodstuffs, etc.
8. Credits, including those for trade in agricultural commodities.

Exhibit B.

The following is a schedule of information to be supplied currently on feeds and foods by the various European offices of the Department of Commerce:

FOODS AND FEEDS—REQUIREMENTS.

- Supply:
  - Domestic—
    - Agriculture.
      - Agricultural policy.
        - Grazing versus field crops.
      - Methods.
        - Use of improved implements and machinery.
      - Crops.
    - Fisheries.
      - Equipment and methods.
        - Relation to shipping
      - Distribution.
    - Control.
    - Fiscal aids and restrictions.
      - Subsidies.
      - Import duties.
        - Drawbacks.
  - Colonial—
    - Control.
    - Fiscal aids and restrictions.
    - Subsidies.
    - Import duties.
      - Drawbacks.
    - Export duties.
      - Drawbacks.
    - Matters of colonial policy.
      - Imperial self-sufficiency.
        - New colonial sources of supply.
    - Financial service.
    - Shipping benefits.
  - Foreign——
    - Restrictions.
      - Import duties.
        - Drawbacks.
      - Shipping handicaps.
      - Financial service.
      - Popular prejudice.
    - Matters of commercial policy.
- Costs, prices, and price control.

Exhibit C.

SURVEY OF THE FOODSTUFF SITUATION OF EUROPEAN COUNTRIES.

Former Commercial Attaché A. P. Dennis, of London, has been working on a survey of the foodstuff situation of European countries and has been instructed to work out the details for a regular and prompt statistical service on the European foodstuff situation. Mr. Dennis is exceptionally well qualified by practical agricultural experience and by a sound economic training to carry out this program and is devoting his entire time to it. Instructions regarding this investigation issued to Mr. Dennis follow.

There are two important problems to be worked out in the near future. The first is the current rate of consumption of different food commodities, especially as compared with some basic period as prewar. It will be very interesting to know what the trend is in other countries. You see, what the trade wants is up-to-date information (showing opportunities), especially as it forecasts events. Such analysis should be made frequently to include the whole of western Europe, or at least sufficient countries to indicate trends. It occurs to me that if you could make arrangements to get hold of the staistics for about half a dozen of the western countries immediately after the close of the month

and make such an analysis it would be of great help. We also want to go a little further, if possible, and find out reasons for changes.

The second line of work we wish to develop is some way of steadily improving crop reports from European sources. Heretofore we have depended almost entirely on official sources, and the information came through very slowly. We often get reports about the failure of some crop in a region where the amount produced is so small that it could not affect the American markets. It is only when the change runs into, say, 10 or 20 per cent of the whole European grain crop that it will be reflected in Chicago prices.

You will realize, also, that these reports ought to be summarized at one place. Miscellaneous reports coming in from various places at different times are hard to put together for a general analysis. A system by which you could collect a fair crop analysis at one central point at a stated period each month and forward a summary by cable would be an ideal arrangement. The international institute, of course, was originally intended to make such reports on the world situation. However, it was functioned too slowly for commercial purposes as it must wait for official reports, the result being that their statements, as usual, are both slow in arriving and incomplete.

Representative TEN EYCK. I would like to know what instructions you give your agents whom you send abroad, in regard to agriculture.

Mr. KLEIN. We give a variety of instructions bearing on that topic. They are to report currently and regularly on agricultural questions of general economic interest, including stocks and produce on hand, trade conditions, prices, and things of that sort. They are also required to report on any special topics of importance. If, for instance, an emergency arises in the market conditions in certain commodities—a serious crisis or an oversupply—they are supposed to send in promptly all necessary and vital information on the subject.

The CHAIRMAN. To what extent are any of the men attached to the service in foreign countries educated in agricultural science and agricultural matters—to what extent do they represent the agricultural viewpoint?

Mr. KLEIN. I would not describe any of them as being exclusively or especially agricultural in their viewpoint, though some of our men do have a thorough knowledge of agriculture and all of them understand its basic principles, especially on the marketing side. Mr. Dennis, who was until recently our attaché in London. and whom we have now detached for a special study of the foods trade in Europe, is a man who has owned some farms in this region, in Virginia and Maryland, and has some knowledge, of course, of agriculture. Other members of the Department of Commerce staff have had similar experience. For example, our agent in Vladivostok was for 18 years the manager for the International Harvester Co. in Russia and is well informed about agricultural conditions there.

Representative TEN EYCK. What are your requirements for these appointments?

Mr. KLEIN. While we have no special test on agriculture at present. we do require a satisfactory showing in a very exhaustive examination on general economic subjects, including a 7-hour written examination, supplemented by a 2-hour oral test. In this very thorough grilling we try to bring out a man's general capacity as an economic observer, because our experience has been that a resident agent abroad must have primarily a basic knowledge of economic conditions and forces, not simply of some special subjects. Otherwise he will have no perspective, and his reports, however expert they may be in special lines, will be narrow and dangerously misleading.

Representative FUNK. As I understand, you have a number of questions that they are to report on, among others crop conditions and yields. How do you make use of that information—what has been your method of getting that to the people to whom it would be beneficial?

Mr. KLEIN. Just recently we have arranged for the distribution of some of this information through the Bureau of Markets. The latter has specified to us what they would like to have, and we are securing the data for them. We distribute especially, however, through the Department of Commerce publications, which have a circulation of perhaps 15,000 throughout the trade centers of the United States, through hundreds of trade associations with which we cooperate closely, and also through our own district and cooperative offices throughout the United States. There are perhaps 30 of the latter, which maintain the closest contact with all firms and individuals interested in exporting food products. Furthermore, our Foodstuffs Division is in direct relationship with practically all the producing associations in those lines. We are undertaking to spread our information in their direction as well.

Representative TEN EYCK. In other words, when you concentrate in this country the information gathered abroad, your policy is to turn it over to the Agricultural Department for distribution by them, or do you endeavor to get it into the hands of the farmers direct?

Mr. KLEIN. We endeavor to get it into the hands of those who make the best use of it. That includes the Bureau of Markets. Take the canned goods information, the most direct means of distributing that would be through the canners to their various groups.

Representative TEN EYCK. That is commercial.

Mr. KLEIN. That is commercial; yes. We try to distribute it to those who are likely to make the most use of the information.

Representative FUNK. What are you doing looking toward the stimulation of the use of meat products and grain?

Mr. KLEIN. With meat products we have not yet made any definite detailed study, so far as foreign markets are concerned. We have had many requests from meat packers for advice; for instance, as to the restrictions on the sale of meat products. That information is already being collected by our attachés, and is being circulated through the already existing divisions in the bureau.

Representative FUNK. What about wheat?

Mr. KLEIN. There once more the thing is still in process. This division has just been established, and we have not made any specific preparation for that study.

The CHAIRMAN. If there is nothing further, we are very much obliged to you, Mr. Klein, and we are very sorry we have had to hurry you along so much.

The commission will stand adjourned to meet upon call.

(Thereupon, at 12 o'clock and 10 minutes p. m., the commission adjourned, to meet on call of the chairman.)

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